Commission of Inquiry
into
Residential Tenancies

A Study of Landlords and Rent Regulation

Ekos Research Associates Inc.

Research Study No. 24

A STUDY OF LANDLORDS AND RENT REGULATION

by

Ekos Research Associates Inc.

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author and not necessarily those of the Commission.

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1.0 INTRODUCTION - AIMS AND STRATEGY

The topic of rent control is a timely and volatile issue which evokes a variety of strong responses from Ontarians. Nowhere are attitudes more polarised on the question than in the case of tenants versus landlords. Whereas tenants are relatively pleased with the current state of affairs, landlords are increasingly frustrated and acrimonious. The characteristics, perceptions and preferences of tenants are reasonably well known - possibly due to their vast numerical (hence political) superiority vis-à-vis landlords. However, any complete review of the current and evolving status of rent review in Ontario must incorporate an understanding of landlords and their position in the rent review process. Many landlords feel under siege from government rules and regulations. This mentality makes it extremely difficult to collect information on this topic, yet if discussions are to produce more light than heat, it is imperative to produce this knowledge. That is the goal of this study.

The Commission of Inquiry into Residential Tenancies has produced a range of analytical papers germane to its mandate to report on the operation of existing laws to regulate rents and to make recommendations on changes to eliminate or reduce inequities. In reviewing this body of research it became apparent that current, empirical evidence was needed on the nature of the landlord and landlord experiences with and attitudes towards rent regulation. In order to minimize the number of assumptions and conjectures, the present study was commissioned to supply the missing evidence.

This report presents the findings of an empirical study of the factors influencing landlord participation in the Ontario rent review process. The study population was defined as all landlords of smaller residential buildings in urban Ontario during the summer of 1985. The study focused on smaller scale landlords because they were expected to have the greatest difficulty in meeting the paper and administrative burden of the review process.

1.1 Research Issues

In considering the future of rent control, it is highly desirable that government decision-makers are equipped with firm knowledge of the extent to which the system is being utilised, the fairness of its impacts on different types of landlords and the factors influencing perceptions and behaviour (participation or circumvention) which are amenable to intervention. Interventions could take the form of education or publicity campaigns, simplification of the review process, or other policy initiatives.

The four major research issues were:

- to what extent are landlords circumventing the intent or the letter of the rent control and review legislation?
- are landlords aware of rent control review and how accurate is their knowledge about its application and requirements?

- do abilities to participate in the rent review hearing process, in terms of meeting the reporting or presentation requirements, vary among landlords?

- how willing are landlords to participate or reparticipate in the process in the future and what factors will influence this decision?

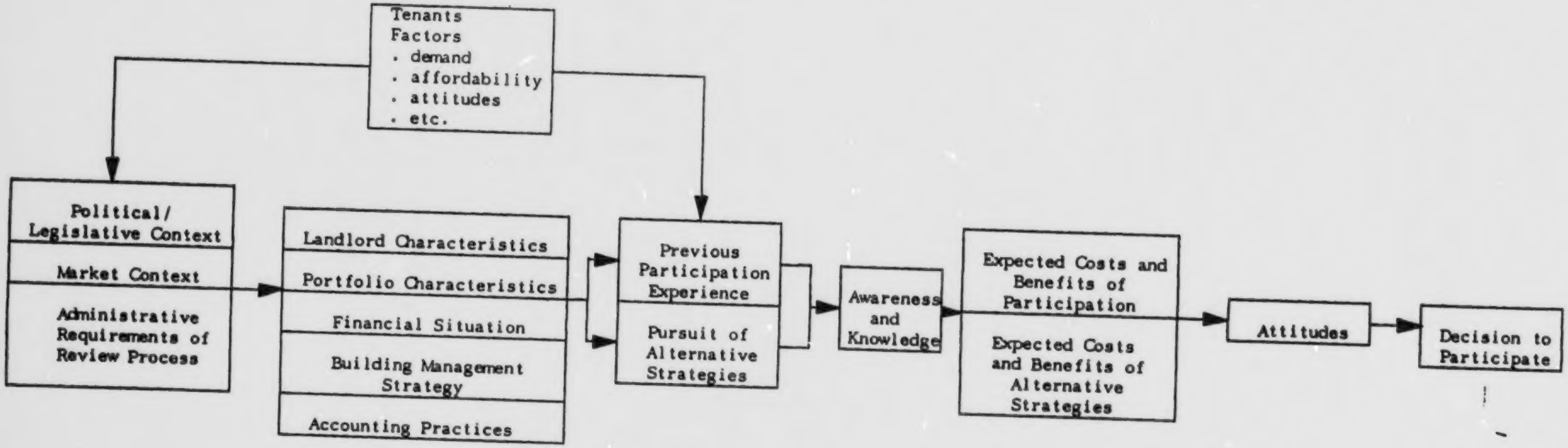
1.2 Conceptual Model for the Research

In order to avoid a shotgun approach to data collection and analysis we began with a general conceptual model which defined the universe of discourse in quite abstract and summary terms. This model, presented in Figure 1.1, summarises a hypothetical system of factors which may influence participation (or reparticipation) in the rent review process.

The model was intended as a heuristic device to generate hypotheses and guide data collection and analysis. The present study could only measure some of the factors in the model. The overall political context, general economic factors and administrative requirements of the rent review system are here viewed as "givens" (roughly speaking these are exogenous factors). The conceptual model also posits tenant characteristics as having an impact on both tenant relations, building management strategy, and previous rent review participation experience. Tenant characteristics, however, were not included in the study purview.

FIGURE 1.1

General Conceptual Model of Determinants of Participation in Rent Review


Tenants
Factors
. demand
. affordability
. attitudes
. etc.
Political/
Legislative Context
Market Context
Administrative
Requirements of
Review Process
Landlord Characteristics
Portfolio Characteristics
Financial Situation
Building Management
Strategy
Accounting Practices
Previous
Participation
Experience
Pursuit of
Alternative
Strategies
Awareness
and
Knowledge
Expected Costs and
Benefits of
Participation
Expected Costs
and Benefits of
Alternative
Strategies
Attitudes
Decision to
Participate

As the model suggests, the decision to participate in the rent review process is seen as a complex function of the objective characteristics of the landlord's characteristics, past experience, the expected value of participation or alternative rent setting or building management strategies, and perceptions and attitudes.

We hypothesised that the salient landlord characteristics would include scale and sophistication of operation, accounting practices, financial situation with respect to the sampled property, and building management and maintenance strategies. These would influence the level of the landlord's knowledge about the applicability of the legislation, the landlord's ability to meet the administrative accounting and presentation requirements of the hearing process, and the landlord's ability and willingness to pursue alternative strategies for maintaining or increasing profit margins. These alternative strategies could include participation in rent review, reducing operating costs, deferring capital investments, negotiating rent levels with tenants and/or illegally raising rents. If restraints on rent increases depress landlords' return on investment, they may want to sell the building, or convert to ownership or commercial use. Developers may stop building for rental.

We hypothesised that the choice among these strategies would be influenced by past experiences with or attitudes towards rent review and the relative balance of costs and benefits expected to be associated with each strategy. This trade-off decision could be expected to consider non-economic costs and benefits (e.g., a negative impact on tenant relations) as well as economic costs and benefits.

1.3 Organisation of the Report

The next chapter provides a brief overview of the research methodology employed in the data collection phase and an assessment of the success of the methodology.

The following five chapters present our substantive findings. We start with a descriptive profile of landlords before moving through an exploration of ways in which landlords have been altering net rental revenues in the past (including previous participation, circumvention and strategies to cut operating costs), the accuracy of their knowledge of rent review, their ability to meet the administrative requirements of a hearing, and attitudes towards participation. Bivariate and multivariate analytic techniques are used to isolate factors predicting knowledge, attitudes, and intentions. Selective use is also made of an existing 1984 data base for a subset of thirty-eight landlords in Ottawa, Hamilton and Toronto.

The final chapter summarises our findings and presents our conclusions based on the empirical evidence. The appendices contain the survey instruments (annotated with sample statistics), a report on the conduct and results of the field work and an explanation of the analytical methods employed.

2.0 STUDY METHODOLOGY

Data quality can be considered in terms of sampling errors (generalisability), measurement errors (data validity and reliability) and other method errors (due to data collection and EDP techniques). This chapter considers the study methodology in terms of these potential errors in order to allow the reader to judge what confidence can be placed in the study findings.

2.1 Sampling Considerations

We begin with a discussion of the generalisability of our substantive findings (viz., how representative are the sample statistics of the total Ontario population of landlords of smaller rental residential properties?). This section includes a brief description of the process by which the study sample was selected and the data collected. A detailed report on the field work and the results is contained in Appendix B.

The data for this study were collected by means of a telephone survey of 210 landlords in nine southern Ontario regional municipalities (Metro Toronto, Ottawa/Carleton, Hamilton/Wentworth, Peel, Halton, Durham, Niagara/St. Catharines, North York and Middlesex county). The landlords were selected on the basis of their ownership, for at least one year, of a small to medium sized rental residential building (with two exceptions, these buildings had between six and 40 units).

Relative to the total Ontario population of landlords of small properties, our sample under-represents owners of properties with fewer than six units, landlords in rural areas and landlords who have recently purchased or sold their properties.

Two sampling frames were used: TEELA* listings of owners of rental residential properties (with at least six units) in the nine regional municipalities, and landlords of low rise rental residential properties in Ottawa, Hamilton and Toronto who had been interviewed a year earlier for a study conducted for the Ontario Ministry of Municipal Affairs and Housing (MMAH). The purpose of using this second frame was to allow us to link new data on knowledge, participation and attitudes about rent review with the information in an existing data base on the physical condition of the building, and tenant characteristics and attitudes.

The TEELA landlords were selected by a random start, interval sampling technique to ensure a sample size proportionate to municipality size. All eligible MMAH landlords were recontacted. The original MMAH sample had been selected by a multi-stage cluster sampling method described in more detail in Appendix B. It is important to note that the eligible survey population for the MMAH study was defined somewhat differently, i.e., the building has three or more units but is less than five storeys, is purely residential and has not been recently constructed or renovated to luxury standards. These MMAH landlords represent 18 per cent of our final sample and their inclusion will somewhat over-represent the actual incidence of older properties at the lower end of the rental market.

---

* TEELA is a Toronto-based market research company that compiles inventories of real estate properties from the assessment rolls.

We were concerned to see if there were any systematic differences between the background characteristics of MMAH and TEELA landlords. T-tests were performed to compare sample statistics for portfolio size, length of ownership, concentration of investments in rental real estate, building age and typical rent levels. There are no statistically significant differences with the exception of the total number of rental residential units owned. TEELA landlords own larger portfolios (defined by units not buildings), however the t-value is significant only at the .09 level (i.e., there is almost a one in ten chance that this difference is due to sampling fluctuations). On the basis of these tests we concluded that both samples could be considered to come from the same population and the analysis should be performed on the combined responses.

The interviews were conducted by telephone and we had a high rate of attrition due to unlisted or out of service phone numbers with the landlords listed in TEELA. These losses were 51 per cent of the selected landlords (i.e., we were unable to find residential phone numbers for 394 of the 768 landlords selected from the TEELA frame). This unlisted population may differ systematically from the landlords for whom we were able to identify phone numbers. It is difficult to identify the direction of this potential bias as landlords may have unlisted numbers for a variety of reasons. They may be at both ends of the socio-economic status scale and their decision may or may not be based on a desire to avoid direct telephone contact with their tenants or surveyors. It is encouraging to note that the Commission of Inquiry into Residential Tenancies calculates the annual rate of participation to be 15 per cent of landlords. Our data show 12 per cent of our sampled landlords applied in each of the last three years. The differences between these two rates are probably not statistically significant. Thus the landlords lost due to unlisted phone numbers does not appear to include a disproportionate share of non-participants in the rent review system.

Excluding this population, the overall response rates, for those for whom telephone numbers could be identified, was 66 per cent. This includes landlords who were unable to participate due to language difficulties. This may also cause these landlords problems in participating in rent review.

The distribution of our final sample also under-represents Toronto landlords (and slightly over-represents Ottawa and Hamilton landlords). T-tests were performed to see if Toronto landlords differed systematically from those in other municipalities. Looking at a variety of background characteristics (portfolio size, typical unit rents, length of ownership, age of building and concentration of investments in rental residential real estate) we found no significant differences with the exception of a barely statistically significant difference (p=.11) in the total number of units in the landlord's portfolio. Toronto landlords - while no more likely to own more buildings - are more likely to own larger buildings was therefore conducted on an unweighted data base.

Problems of generalisability are also a function of sample size. We looked at the confidence intervals for a number of sample statistics as an indicator of the general magnitude of sampling error in particular circumstances. With a 95 per cent confidence interval, the following upper and lower bounds were obtained*:

---

*Formulae used were =

$$\overline{X} \pm 2.131 \left(\frac{S}{\sqrt{n-1}} \right) \text{ or } \frac{R}{n} \pm 1.96 \sqrt{\frac{p(1-p)}{n}}$$

- proportion of landlords who reported applying for a hearing: 48.3% ± 6.9

- proportion of past participants who feel the Commission presided in an unfair manner: 44.0% ± 10.2

- proportion of non-participants who cited the paper burden as an important reason for not applying: 62.0% ± 9.9

- proportion of all landlords who feel it likely that they will be applying for a rent review hearing in the next five years: 43.6% ± 7.1

- proportion of all landlords who admit to illegal rent increases: 17.4% ± 5.2

- minimum percentage rent increase needed before application for a hearing would be considered worthwhile: 11.3 ± .8

- reported pre-tax net rental revenues in 1984: $20,150 ± $6,850

In summary, generalisability to the wider Ontario population is limited by the *a priori* limitations set by the available sampling frames and threatened to an unknown extent by the high incidence of unlisted telephone numbers. Confidence intervals for a variety of variables of interest are broad given that the sample size is effectively halved by the use of two separate lines of questioning for previous participants and non-participants.

2.2 Data Reliability and Validity

Reliability refers to the intersubjective repeatability of the results. First it is encouraging to note that the same questions repeated on both this and the 1984 MMAH survey elicited similar response patterns, i.e., different people using parts of the same instruments get the same results. Generally speaking, the higher the variance in the responses, the lower the reliability. Higher levels of variance (i.e., the standard deviation approached or exceeded the arithmetic mean) were noted in the responses to questions concerning the number of times the landlord had applied for rent review, the portfolio size, the property value, current mortgage debt ratio, net rental revenues in 1984 and the proportion this represented of total 1984 income.

Validity refers to whether the questionnaire really measures what it is intended to measure. The landlords surveyed have strong feelings about rent control and so we can logically expect some biases in their responses as a result of their position as a non-neutral stakeholder within the system. For example, one should expect some exaggeration of the extent of negative impacts reported as stemming from rent control or participation in the hearing process. In terms of construct validity, however, we feel the findings are of generally high quality. The patterns of answers are generally internally consistent and consistent with the linkages we had hypothesised as plausible.

2.3 Summary

We do not anticipate that the data collection, transcription or electronic data processing methods introduced any systematic errors. Interviewers were carefully trained to perform in an objective and professional manner and their performance was monitored during the field work. All completed interview schedules were reviewed for missing or inconsistent data. Consistency edits were also conducted during the data base management phase. Overall, we feel the internal validity and reliability of the findings are high although we recognise that the responses are likely to reflect a stakeholder bias. Generalisability to the wider Ontario population of smaller landlords is complicated by the high incidence of unlisted telephone numbers. We feel this attrition probably introduces a source of systematic error. We would expect that unlisted landlords probably tend to be polarised between larger scale, well to do, hands-off operators, corporate owners which only exist for tax or legal purposes and marginal operators with a higher incidence of property management problems.

3.0 PROFILE OF LANDLORDS

To provide a context for the exploration of the study issues, we begin with a statistical portrait of the landlord. What are the key defining characteristics in terms of scale of operations, financial position, management style, etc.? This knowledge is particularly important since earlier work* has shown that one of the few unifying characteristics of landlords is a firm belief that they are fundamentally misunderstood by governments and the public. Despite this common quality it is worth bearing in mind that there are very few other "pan-landlord" characteristics and there are really several very distinct types of landlords.

This chapter provides a basic descriptive profile of the landlords interviewed, including their legal and financial position, building and real estate portfolio characteristics, involvement in the operation of the property, and current management motivations. The relationships between these background characteristics and past participation, knowledge, ability and attitudes are discussed in subsequent chapters.

3.1 Scale of Operations

The legal form of ownership for the majority of our sample involves individuals or small groups of related individuals: 35 per cent of respondents are individual sole owners, 31 per cent are husband and wife co-owners, and partnerships with other relatives make up another 14 per cent. Thirteen per cent are corporations and eight per cent are other types of partnerships or limited dividend companies.

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* Ekos Research Associates, "The Coming Crisis: Low Rise Rental Housing in Metropolitan Ontario", May, 1985.

The size of the rental residential real estate portfolios owned by our respondents varies considerably, ranging from one to 65 buildings which include from four to over 4,000 units. The majority of landlords are small scale operators, as might be expected from the sample design. The mean number of buildings in the portfolios of our respondents, including the sample property, is 4.6 (the median number is 1.8 buildings). Forty-five per cent own just one building. The mean total number of rental units owned is 132.1 (the median number is 18.4 units). The discrepancies between the mean and median portfolio sizes suggest our sample includes a number of landlords with extensive portfolios. Table 3.1 displays the frequency distribution of sampled landlords by portfolio size.

TABLE 3.1
Frequency Distribution of Landlords by Portfolio Size
(Column Percentages)*

Number of Buildings		Number of Units	
One	44.8	6 or less**	14.5
Two	14.9	7 to 10	8.8
Three	12.4	11 to 15	17.6
Four to ten	16.5	16 to 25	21.2
Eleven to twenty	6.7	26 to 50	15.0
Over twenty	4.6	51 to 100	8.8
		101 to 500	8.8
		over 500	5.2
Totals	**99.9**		**99.9**

---

* Columns may not add to 100 per cent due to rounding error.

** One MMAH landlord owned a building with four units. All others owned a minimum of six units.

Individual sole owners, husband and wife co-owners and partnerships with relatives are more likely to have smaller portfolios than are landlords with other legal forms of ownership. Not surprisingly, corporations tend to display much larger scale operations (in terms of both number of units and number of buildings) than other types of landlords. To the extent that scale of operations is a factor influencing knowledge, ability or attitudes, one might expect significant differences in these variables among the different legal forms of ownership.

TABLE 3.2
Crosstabulation of Type of Owner and Portfolio Size
(Row Percentages)

	Total Number of Buildings Owned				Totals	
	One	2 - 3	4 - 10	11 or More	%	n
Individual Sole Owner	37.3	31.3	23.9	7.5	**100.0**	**67**
Husband/Wife Co-Owners	62.9	24.2	8.1	4.8	**100.0**	**62**
Partnerships with Relatives	46.2	38.5	11.5	3.8	**100.0**	**26**
Corporations	16.7	4.2	29.2	50.0	**100.1**	**24**
Other Types	42.9	42.9	7.1	7.1	**100.0**	**14**
All Landlords	44.6	17.4	16.6	11.4	**100.0**	**193**

The majority of respondents report high proportions of their total investments in rental residential real estate: two thirds have 60 per cent or more of their total investments in real estate. Thirty-two per cent have all their investments in this market. The mean percentage is 71 per cent (the median is 80 per cent). Only those landlords with very small operations are likely to have more than half of their investments in non-real estate holdings. This general trend of a concentration of investments in residential real estate does not vary by legal type of ownership. For most of our sample, real estate is their principal investment vehicle.*

TABLE 3.3
Frequency Distribution of Landlords by Percentage of Total Investments in Rental Residential Property (Column Percentage)

20 per cent or less	8.7
21 to 40 per cent	8.7
41 to 50 per cent	15.6
51 to 75 per cent	16.8
76 to 95 per cent	16.2
96 to 100 per cent	34.1
Total	**100.1**

The preceding analysis shows a very heterogeneous sample with major variations in the scale of operations. In terms of implications for the rent review process, this variety implies differing levels of capability and sophistication for the affected landlords. One of the common characteristics is the heavy concentration of their investments in real estate.

3.2 Sampled Building Characteristics

Landlords were asked a series of questions about the sampled property concerning the length of ownership, building age, typical unit sizes and rents, and the physical condition of the building.

As with characteristics of the landlords, the buildings show considerable variety. Eighty-seven per cent of the buildings were bought and 13 per cent built by the respondent. They were acquired between 1927 and 1984. The mean length of ownership is 13.3 years, and the median length 11.6 years. As Table 3.4 shows, 45 per cent of respondents acquired their building since the imposition of rent controls (1975).

---

* We cannot distinguish between the concentration of investment for the corporation or the concentration for the individual respondent.

The sampled buildings were constructed anywhere from one to 100 years ago with an average age of 37 years. Compared to the 1981 Census statistics for the low-rise Ontario rental stock, our sample distribution is very close to the Census distribution (except for a slight under-representation of the post-1975 stock).

TABLE 3.4
Frequency Distribution of Landlords by Year of of Property Acquisition and Buildings by Age (Column Percentages)

Property Acquisition		Age of Building	
Before 1960	11.0	10 years or less	1.0
1960 to 1969	23.4	11 to 20 years	18.0
1970 to 1975	21.1	21 to 30 years	38.0
1976 to 1979	14.8	31 to 40 years	12.5
1980 to 1982	14.4	41 to 60 years	17.0
1983 to 1984	15.3	61 to 100 years	13.5
Total	**100.0**	**Total**	**100.0**

The typical sample property tends to be small. Just over half of the sampled properties contain 10 or fewer units. The mean number of units is 12.9 and the median 10.1 units. The majority of the units are one or two bedroom apartments (See Exhibit 3.5).

TABLE 3.5
Frequency Distribution of Sampled Buildings by Number of Units and Most Common Unit Size (Column Percentages)

Size of Building		Most Common Unit Size	
4 to 6 units*	31.0	Bachelor	6.8
7 to 10 units	20.5	One Bedroom	35.1
11 to 15 units	20.5	Two Bedroom	54.1
16 to 25 units	15.2	Three Bedroom	3.9
Over 25 units**	12.9		
Totals	**100.1**		**99.9**

The rents charged for these units (as reported by the landlord) range from $137 to $750, with the mean rent being $357. While there is a fair degree of variation, the average rents are $256 for a bachelor, $318 for a one bedroom, $387 for a two bedroom, and $486 for a three bedroom. Table 3.6 displays the distribution of buildings by level of typical unit rents.

TABLE 3.6
Frequency Distribution of Buildings by Typical Unit Rent Level (Column Percentage)

$250 or less	9.5
$251 to 300	19.6
$301 to 350	24.6
$351 to 400	24.6
$401 to 500	17.1
$501 to 750***	4.5
Total	**99.9**

---

* One MMAH landlord has a building with four units.

** The maximum number of units (as per the sampling plan) is 40 units, with the exception of one building, with 46 units, which was incorrectly entered in the TEELA data.

*** One landlord reported a typical rent of $750. This building may not be subject to rent controls.

Using a question drawn from the 1981 Census, landlords were asked to assess the current physical condition of their (sampled) properties. Forty-nine per cent of the landlords rate their buildings as requiring only regular maintenance, 24 per cent feel that minor repairs are needed and 27 per cent consider their buildings as in need of major repairs.

The responses to this same question in the 1984 MMAH survey of low rise apartments buildings (from which 18 per cent of our sample was taken) are almost exactly the same: 49 per cent of these landlords rated their buildings as needing only maintenance, 23 per cent stated that minor repairs were needed and 28 per cent thought major repairs were necessary. Using independent physical inspections by qualified building experts we have established the validity of the landlord responses.*

The picture emerging from this analysis is one of a moderately aging, smaller stock which is clearly serving a fairly modest section of the market. Very little of this stock is new and half of the properties are in need of repairs. Given the locations the stock occupies, it is unlikely that it will be replaced by similar units once it disappears. Most landlords are not neophytes and have owned their property for some time. A substantial minority of landlords acquired their properties since the inception of rent controls.

---

* Using the same question, inspector ratings proved landlord reporting as reliable and valid (gamma=.61, $p < .0001$) although landlords are more prone to discern a need for major repairs (27 per cent of landlords versus 11 per cent of inspectors).

3.3 Financial Situation of the Property

Sampled properties also vary considerably with respect to their financial characteristics. Initial purchase prices for these properties ranged from $13,000 to $600,000. The mean cost of the property when purchased was $186,785 (the median cost was $148,500). The current market value, as reported by the landlord, ranges from $25,000 to $2.5 million. The mean current market value is $353,063 and the median value $274,750. Table 3.7 displays the distributions of properties by market value.

TABLE 3.7
Frequency Distribution of Sampled Buildings by Original Cost and Current Market Value
(Column Percentages)

	Original Purchase Price of Property	Current Estimated Market Value
$ 10,000 to 50,000	7.6	.6
50,001 to 100,000	27.9	3.1
100,001 to 150,000	17.1	11.3
150,001 to 200,000	14.6	15.0
200,001 to 300,000	17.1	32.5
300,001 to 400,000	7.6	14.4
400,001 to 600,000	8.2	12.5
600,001 to 1 Million	-	8.1
Over $1 Million	-	2.5
Totals	**100.1**	**100.0**

Reported property market values have increased, since the purchase of the property, for 93 per cent of landlords. Five per cent report no change and three per cent report declines in property values. As landlords have owned their properties for different lengths of time, the average per annum property value increase is used as an indicator of the rate of building value appreciation. The mean reported change per annum (increase) in the market values of the properties is a robust 12.5 per cent (the median increase per year is 7.7 per cent). Table 3.8 displays the distribution of the simple mean rate of increase. The Consumer Price Index has increased on average by 8.5 per cent per annum over the last 13 years. A comparison of mean, median and CPI average per annum figures suggests that while a large group of landlords may not be keeping up with inflation, clearly some landlords are doing very well. One should remember that these figures are as reported by the landlord. Respondents may be deliberately understating the actual value increase in order to produce a picture of the landlord more likely to engender a

TABLE 3.8
Frequency Distribution of Landlords by Simple Average Annual Percentage Increase in Property Value*
(Column Percentage)

-10 to -1%	2.9
Zero	6.5
1 to 5%	30.2
6 to 10%	14.4
11 to 15%	14.4
16 to 25%	10.8
Totals (%)	**100.1**
(n)	**139**

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* These percentage increases are derived from reported original and current property values and length of ownership. The proportion of landlords with zero annual increase is slightly higher than the proportion with a zero absolute increase due to the computer program truncation of fractions.

sympathetic view from the consumers of this study. Others may be reporting what they feel the property value should be rather than the value they could actually realise. The former may be a source of systematic error (stakeholder bias) but we do not expect the latter to be. The reported average annual increases in property values do not vary significantly between landlords who purchased before the imposition of rent control and those who purchased after.

Owners' equity has also increased over time. The mean portion of the initial purchase price represented by mortgage debt was 66 per cent (median 75 per cent). The mortgage debt ratio ranged from zero to 100 per cent: six per cent of respondents required no mortgage to purchase the property but two thirds reported an initial mortgage debt ratio of 60 per cent or more. The majority (82 per cent) of landlords have reduced their mortgage debt ratios since purchasing their property. Fifteen per cent have not altered the ratio and three per cent have increased it. Thirty-two per cent of respondents now own their buildings outright (have no mortgage) and about one quarter have mortgage debt ratios of sixty per cent or more. The current mean mortgage debt ratio is 33 per cent.

Deriving initial and current levels of equity from the reported property values and mortgage debt ratios,* we find impressive changes in equity levels. The average absolute increase in equity is seven times the size of the initial equity (the median increase is 270 per cent).

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* Due to possible respondent biases or errors in the reported figures, these equity calculations should be appreciated only as indicators of the general order of magnitude of changes over time.

Dividing these total percentage increases by the number of years the landlord has owned the property, the mean annual increase is 71 per cent (the median annual increase is 30 per cent). The disparity between the mean and median figures again suggest landlords can be split into high and low growth groups. If we consider the absolute CPI increase over the past thirteen years (110 per cent) as a proxy for increases in property values due to inflation, these figures suggest a majority of landlords are reducing the size of their mortgage debt through repayments of the principal.

When we examine the separate question of revenue production, the reported picture is not nearly as positive as in the case of equity development. Once again, there is a broad range of variation which suggests a single pattern is insufficient to describe the situation. Overall, the average 1984 pre-tax net rental revenue from the sampled buildings is $20,180 (median of $7,970). Twenty-four per cent of landlords reported zero or negative net rental revenues. The mean annual per unit net rental revenue is $1,550 (median is $783) or about 36 per cent of the average annual per unit rent.

Reported net annual rental revenues in 1984 are, on average, 8.5 per cent of current equity and 55.5 per cent of original equity (the median financial return on original equity is 23 per cent). Expressed as a percentage of initial capital invested (original equity plus mortgage debt), current net rental income is, on average, 14.4 per cent (median six per cent) of the initial purchase price.

The frequency distribution of these ratios are displayed in Table 3.9. These ratios are very crude estimates of a simple rate of return and should not be confused with the more sophisticated concept used in the

economic or accounting literature. They have not been adjusted to allow for the effects of inflation - a dollar of original equity invested is worth more than a dollar today - and so these figures overestimate the real rate of return. They also reflect the rate of return at only one point in time, rather than over the duration of the investment. They do not reflect any capital gains nor distinguish between return on cash equity and compensation for the landlords' sweat equity.

TABLE 3.9
Frequency Distribution of Landlords by Ratios of Financial Return: Net Rental Revenues as a Percentage of Original Equity and Capital Invested (Column Percentages)

	Original Equity	Original Capital
Negative or Zero	23.8	27.0
1 to 10%	13.9	27.0
11 to 20%	7.9	22.5
21 to 30%	10.9	10.8
31 to 50%	11.9	7.2
51 to 100%	18.8	3.6
Over 100%	12.9	1.8
Totals (%)	**100.1**	**99.9**
(n)	**101**	**111**

By way of comparison, data collected for 66 buildings in Toronto and London in 1980 revealed 60 per cent had a ratio on initial capital below ten per cent, one third had a negative ratio on initial equity and 31 per cent were between zero and 9.9 per cent.* The data are not exactly comparable but the findings are similar.

Net rental revenues as a percentage of initial equity is highly correlated with return on initial capital ($r = .79$, $p < .001$) despite considerable variation in initial mortgage debt ratios. Both ratios are modestly correlated with the total percentage increase in property value over time. When we control for length of ownership, i.e., use the average annual increase in property value, the correlations become weaker ($r=.27$, $p<.005$ and $r=.17$, $p<.05$ respectively).

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* Ministry of Municipal Affairs and Housing, "The Impact of Rent Review in Rental Housing in Ontario: A Staff Report", July, 1982, pp. 75-78.

Net rental revenues expressed as a percentage of initial equity or capital rise the longer landlord has owned the building ($r=.42$, $p<.001$ for equity and $r=.30$, $p=.001$ for capital). Comparing landlords who purchased before and after the imposition of rent control, we find statistically significant differences in the ratio of revenues to original equity: those who purchased in 1975 or earlier have an average return of 89 per cent compared to 26 per cent for those who purchased in 1976 or later ($p=.001$)*. We cannot attribute this difference to the imposition of rent control although this is certainly one plausible explanation. The result may also be a function of low or negative net rental revenues in the early years of property ownership. A scattergram of the year of acquisition and the ratio of revenues to original equity suggests the relationship is curvilinear - net rental revenue as a percentage of original equity is lower for recently purchased properties as well as those purchased in the 1950's or earlier**.

In reviewing these data we must keep in mind that the survey method is somewhat reactive in the sense that it may bias the responses of the landlords. It is probably in the interest of the landlord to convey an image of financial hardship in a survey which involves a public sector audience. Even allowing for this source of possible bias, the reported figures are fairly positive. Two other additional points must be kept in mind. First, the mean figures may hide the fact that many landlords are doing very well in terms of return on investment (since the averages are depressed by some extreme "outliers" who are doing remarkably poorly). Secondly, the overall financial performance, in terms of revenue generation, must be considered against the backdrop of a very stable, secure type of investment which is producing impressive capital gains.

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* There is no statistically significant difference between the ratio for current equity for these two groups of landlords.

** Original equity amounts are expressed in current dollars - this means the rate of return for longer time owners will be higher than would be the case of constant dollars had been used.

Landlords were asked what percentage of total 1984 income was provided by the 1984 net rental income from the sample building. The mean is 18.3 per cent. Thirty-nine per cent of those who responded claim they are making nothing from the property. If we exclude these cases and look just at those with a positive net rental revenue, net revenues are on average 30 per cent of income (the median is 17.5 per cent).

Landlords were asked if they had used the maximum Capital Cost Allowance for which they were entitled for their building in 1984. This question had a high overall non-response rate (32 per cent), which may indicate a lack of financial sophistication or unwillingness or inability to disclose financial matters of this nature. Of those who responded, 60 per cent had used the maximum available, i.e., they had sufficient net rental income from the property to have been able to use the full depreciation to offset taxable income.

3.4 Property Management Style

The conceptual model hypothesised that the decision to participate in rent review might be influenced by the landlords' strategies for restraining operating costs, in particular for maintenance and repair. Under rent controls, profits can only be increased only if the operating costs increase by less than the allowed rent increase. This topic is explored in later chapters. This section provides a preliminary descriptive profile of current property management strategies via a discussion of landlord involvement in property maintenance and the motivations underlying current operating strategies.

Over one third of respondents serve as superintendents for their sampled property. About half of landlords are responsible for janitorial maintenance and 58 per cent for repairs. Predictably, these percentages vary by legal type of ownership. Corporations, limited dividend companies, or partnerships not involving relatives are much less likely to be superintendents than either the individual sole owners or groupings of relatives ($p \angle .001$). Landlords responsible for janitorial maintenance are over three times more likely to be individuals or related co-owners than the other landlord types ($p \angle .0001$). This latter relationship holds true for responsibility for emergency and non-emergency repairs ($p=.0001$). Table 3.10 displays the incidence of various responsibilities by legal type of owner. The distribution of responsibilities among the various types of landlords suggests that the reported difficulty of assessing the value of the landlord's labour for building maintenance and repair during rent review proceedings will be particularly acute for individual sole owners, husband and wife teams and related partners.

TABLE 3.10
Incidence of Landlords Responsible for Building Upkeep by Legal Type of Ownership (Percentages)

Legal Type	Superintendent	Janitorial Maintenance	Non-Emergency Repairs	Emergency Repairs
Individuals	44.4	54.9	61.1	60.6
Husband/wife	43.1	60.0	72.3	72.3
Partnership with other relatives	42.9	57.1	71.4	60.0
Other	7.0	16.3	20.9	27.9
All Landlords	**36.1**	**48.8**	**57.7**	**57.5**

Landlords were asked to rate the relative importance of various potential motivations underlying current property management decisions. Ensuring steady long term earnings was the highest priority, cited as important by 84 per cent of respondents. Containing or reducing operating costs was the second most popular management goal, rated as important by 80 per cent of landlords. Increasing long term equity was rated as important by more than three quarters cf the landlords interviewed. Reducing or minimising tenant turnover, obtaining a high annual income, and maintaining the building for resale were important for 60 to 70 per cent of the landlords. Using the building for financial leverage was relatively unimportant. Table 3.11 summarises these data.

There are statistically significant correlations between management motivations and building or portfolio characteristics. Those of greatest substantive interest

TABLE 3.11
Ratings of Importance of Motivations Underlying Management Decisions

	Percentage Who Report it as Important	Mean Score on 1 to 7 Rating Scale*
Ensure steady long term earnings	83.9	2.1
Contain or reduce rising operating costs	79.7	2.2
Increase long term equity	78.3	2.4
Reduce or minimise tenant turnover	68.4	2.8
Obtain high annual income	59.5	3.1
Maintain building for resale	61.0	3.2
Use building for financial leverage	33.4	4.6

are: landlords of newer buildings are more likely to be concerned with reducing or constraining rising operating costs (r=.14, $p < .05$) as are owners of more expensive or larger buildings (r=.15, $p < .05$ and r=.12, $p < .05$ respectively), and landlords with higher proportions of their total investments concentrated in rental residential real estate (r=.17, p=.01). Owners reporting that they manage their property so as to increase long term equity are more likely to have recently purchased the property (r=.13, $p < .05$). This may reflect a desire to reduce exposure to mortgage rate fluctuations but it may also indicate some landlords are turning over their properties within relatively short periods of time. Reported levels of average annual increases in equity are weakly correlated with this expressed intention ($r=.13$, $p < .10$). Owners interested in obtaining a high annual income from the property are more likely to have experienced a greater than average equity growth ($r=.16$, $p < .05$) but they have higher current mortgage debt ratios ($r=.14$, $p=.05$). They also have larger portfolios ($r=.12$, $p=.05$ for buildings and $r=.18$, $p=.01$ for units) and have owned the sample property for longer periods of time ($r=.11$, $p=.05$).

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* On the seven point scale, 1 was extremely important and 7 extremely unimportant. The percentage who report it is important consists of the collapsed 1 to 3 segment of the scale.

Landlords who have experienced lower than average property value increases are more likely to feel maintaining the building for resale is important ($r=.18$, $p < .05$). As one might expect, owners using their property for financial leverage are more likely to exhibit lower than average decreases in the mortgage debt ratio ($r=.14$, $p < .10$). They also have higher typical rents and net rental revenues per unit ($r=.17$, $p=.01$ and $r=.16$, $p < .05$ respectively).

3.5 Future Intentions for the Property

To conclude this descriptive profile, we look at what the landlord intends to do with the property over the next few years. The majority of landlords (63 per cent) do not anticipate a change in the market role of their building within the next three years, however, a substantial minority do. Twenty-five per cent expect to sell, eight per cent plan to undertake major renovations to bring the building to luxury standards and the rest have other plans for the building. (See Table 3.12.)

TABLE 3.12
Frequency Distribution of Landlords by Intentions for Building in Next Three Years
(Column Percentage)

No change planned	62.6
Sell the property	24.7
Major renovations to bring to luxury standards	7.6
Demolish and build residential housing	1.0
Demolish for non-residential use	1.0
Convert to ownership tenure	0.5
Other	2.5
Total %	**99.9**
n	**198**

This is similar to the findings of the MMAH low rise apartment survey (62 per cent of the landlords had no change in mind, 20 per cent planned to sell and eight per cent planned to renovate to luxury standards). There is no significant association between future intentions and type of ownership although those who do not foresee a change in their management of the building are more likely to own just the one building ($p < .05$).

Landlord intentions are significantly associated with the perceived physical condition of the building. If the property is considered (by the landlord) to require only regular maintenance, he or she is more likely to intend no change in the market role of the building than if either major or minor repairs are required. Those who plan to sell are more likely to have a building they feel requires minor repairs rather than major repairs or no repairs at all

($p < .0005$). It is possible that the landlords who have buildings which require minor repairs feel they can sell it for a good price with these minor problems or defects. Buildings requiring major repairs would be more difficult to sell profitably and the economics of renovation or redevelopment might make luxury renovations, major changes in the market role of the building, or demolition and replacement financially attractive. Landlords concerned with containing rising operating costs are also somewhat more predisposed to sell than are landlords who are not as concerned with their operating costs (29 per cent versus eight per cent, $p < .05$). Table 3.13 displays the crosstabulation of intentions for the building and current physical condition.

TABLE 3.13
Crosstabulation of Perceived Need for Repairs by Future Intentions

	No Change Planned		Sell Property		Change Market Role	
	Row %	Col %	Row %	Col %	Row %	Col %
Major Repairs	50.9	21.8	28.3	30.6	20.8	44.0
Minor Repairs	51.0	20.2	42.9	42.9	6.1	12.0
Maintenance	75.0	58.1	13.5	26.5	11.5	44.0

4.0 PARTICIPATION AND CIRCUMVENTION

Before exploring landlords' understanding of rent review, we need to know to what extent our respondents have participated in, ignored or circumvented rent review. This chapter provides a statistical picture of previous participation and the reasons for this action, the incidence of compensatory cost reduction strategies, and rent setting tactics.

4.1 Characteristics of Participants

About half of those interviewed said that they had applied for a whole building rent review hearing at some point in the past. Individual sole owners and husband and wife co-owners are less likely to have applied than other legal types: the rate of participation ranges from 39 per cent of individuals to 66 per cent of corporations but these differences are not statistically significant. The incidence of participation is, however, statistically significantly associated with portfolio size: landlords with larger portfolios are more likely to have applied. Table 4.1 displays a crosstabulation of participation in rent review with portfolio size as measured in units.

TABLE 4.1
Crosstabulation of Participation in Rent Review with Portfolio Size (Column Percentages)

	Number of Units in Portfolio				Total	
	4 - 10	11 - 17	18 - 45	46 or more	%	n
Participant	19.0	55.0	40.0	75.5	47.8	89
Non-Participant	81.0	45.0	60.0	24.5	52.2	97
n	42	40	55	49	$p < .0001$	

Whether or not the landlord has applied at any time in the past for a whole building rent review is significantly associated with his or her future intentions for the property. Those who have applied in the past are more likely to be planning to sell or to change the market role of the property in the near future than are those who have never applied ($p= < .01$). This relationship does not mean that this decision is the effect of their past experience with rent review as both this intention and the fact that they went to rent review may reflect financial problems.

TABLE 4.2
Crosstabulation of Intentions for the Building by Participation in Rent Review (Column Percentages)

	Previous Participants	Non-participants
No change planned	51.6	73.7
Plan to sell	31.2	19.2
Plan to change market role	12.2	7.1

Among participants, the mean number of times landlords have applied for approval of a rent increase is 3.1 (the median is 1.8 times). Table 4.3 displays the frequency of application which ranges from one to thirty times. Almost three quarters (73 per cent) last applied between 1982 and 1984. The frequency of application in the past is not significantly correlated with most current management strategies, however, landlords who are more likely to want to obtain high annual incomes or to constrain rising operating costs are slightly more likely to have applied more often ($r=.14$, $p < .10$ and $r=.15$, $p < .10$ respectively). As might be expected, landlords with larger portfolios (in terms of buildings) are much more likely to have frequently applied for a rent review hearing ($r=.38$,

$p < .001$) as are landlords with a high proportion of their total investments in rental residential real estate ($r=.21$, $p < .05$). More frequent participants are also more willing to go to rent review for relatively low rent increases ($r=.16$, $p < .10$). Less frequent participants will require higher increases before they feel an application is worthwhile.

TABLE 4.3
Frequency of Application to Residential Tenancy Commission
(Column Percentages)

Number of Times	
Once	42.3
Twice	27.8
3 to 4 times	13.4
5 to 10 times	13.4
More than 10	3.1
Total %	**100.1**
n	97

When asked for the reasons behind the last application for rent review, recovery of higher operating costs was the most important reason, cited by 87 per cent of landlords (60 per cent of landlords stated it was extremely important). Three quarters rated the recovery of capital expenditures for major repairs or replacements as an important reason. Passing on higher refinancing costs was a significant factor for 63 per cent of the landlords. Sixty per cent wanted to recover capital expenditures for major additions or improvements. Compensation for financial loss from purchase or revenue loss from bad debts or vacancies were important for relatively few landlords. These incidences and the mean scores on the one to seven rating scale are reported in Table 4.4. Since a majority of

landlords considered the first four reasons as important to their last application, it is obvious that landlords are going to rent review to redress multiple problems rather than for single, isolated problems.

TABLE 4.4
Incidence of Landlords by Reasons for Last Application to Residential Tenancy Commission

	Percentage Who Felt the Reason was Important	Mean Score on 1 to 7 Rating Scale	n
Higher operating costs	86.6	2.0	97
Recovery of capital expenditures for major repairs or replacements	74.1	2.4	96
Higher refinancing costs	62.6	3.2	96
Recovery of capital expenditures for major additions or improvements	60.2	3.4	93
Financial loss from purchase	42.8	4.3	91
Revenue loss from bad debts or vacancies	25.0	4.9	96

The mean percentage increase in rents sought during the last application was 18 per cent (the median was 15 per cent). The range of the percentage increase last requested stretches from eight to 122 per cent. The mean percentage rate increase approved by the Commission was 12 per cent (the median 10 per cent). The range was from zero to 40 per cent. On average this means approvals were about half the level sought although the approved levels were still double the six per cent ceiling of the Ontario government. There is a strong correlation between the percentage sought and the percentage approved ($r=.78$, $p < .001$).

4.2 Characteristics of Non-Participants

The 52 per cent of landlords who had never applied for a rent review hearing were asked how important they felt a variety of possible reasons for not applying were to their decision not to apply. The most important reasons concern the landlord's perceived ability to participate and these are discussed in greater detail in Chapter Six. Here we note that 62 per cent were unwilling to cope with the paper work (44 per cent cited this as an extremely important factor in their decision) and 61 per cent felt the cost of hiring assistance for the hearing would be too high (46 per cent indicated this reason was extremely important). More than half of non-participants feel intimidated by what they anticipate the process will require.

As can also be seen from Table 4.5, fears that tenant relations would deteriorate are not prominent in the decision to participate or not, nor is the simple lack of need to apply. Less than one third indicated they have not participated because their increases in operating costs are equal to less than the allowable increase. It may be that landlords were reluctant to cite this as a reason and thus this reported incidence may underestimate the true extent to which operating cost increases are less than or equal to the statutory six per cent per annum increase. A minority of landlords reported they had underestimated the actual increase in their operating costs. There is a modest correlation between underestimated and six per cent or less cost increases (r=.34, p=.001) but we cannot determine to what extent underestimated costs were recovered by subsequent statutory increases.

TABLE 4.5
Reasons for not Applying for a Rent Review Hearing

	Percentage of Landlords who Consider This an Important Reason	Mean Score on 1 to 7 Scale	n
Unwilling to cope with paper work	62.0	3.1	92
Cost of hiring assistance too high	61.2	3.2	85
Intimidated by the process	53.8	3.4	89
Tenants agreed to the increase	46.1	4.0	89
Cost increases less than or equal to maximum allowable	31.4	4.3	86
Underestimated actual cost increases	26.2	4.8	88
Tenants would have objected	27.1	5.1	92

Eight per cent reported they did not go because their properties are not rent controlled. This question referred to participation in general rather than with respect to the sample property. Therefore it is possible some landlords cited this as a factor because they own or owned uncontrolled buildings. On the other hand, only three landlords sampled have properties which are not covered by rent control legislation, and these three landlords are previous participants in rent review. In other words, up to eight per cent of non-participants, or up to four per cent of the total study population, may erroneously believe they are not covered by rent control.

Finally we note that in response to an open-ended question eliciting other reasons for non-participation, 21 per cent of the 29 landlords who volunteered other reasons indicated that they feel the rent review process is biased.

4.3 Cost-Cutting Strategies

It has been frequently argued* that rent control and review encourages landlords to adopt property management strategies to reduce operating costs and thereby avoid the necessity for participation in rent review or increase profits. These strategies could take the form of reductions in maintenance staff, lowered levels of maintenance or repair quality, or increases in the operating efficiency of the property.

Landlords were asked to what extent they are pursuing these strategies to reduce operating costs for their sample properties. Three quarters reported they are attempting to increase the energy efficiency of the building.** Of interest from a public policy standpoint, a significant minority of landlords are reducing the inputs into property upkeep or reducing the quality of the housing services. One quarter of landlords indicated they are pruning the maintenance staff or reducing the quality of janitorial maintenance and 29 per cent report that they are delaying major repairs or reducing the quality of the repair work. There is a high degree of correlation between these latter two strategies - landlords reducing maintenance are likely to be reducing repair levels ($r=.47$, $p<.001$). One must also bear in mind the sensitivity of this topic - there may be under-reporting of the extent to which these latter two strategies are being pursued.

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* Clayton Research Associates, "Rent Regulation and Rental Market Problems", Commission of Inquiry into Residential Tenancies, October 1984, p. 50, and Stanbury, W.T., Vertinsky, Ilan B., "Rent Regulation: Design Characteristics and Effects", Commission of Inquiry into Residential Tenancies, May 1985, pp. 6-41.

** Responses were rated on a seven point scale with 1 being the landlord has taken the step to a great extent and 7 not at all. Answers of 1, 2 or 3 are used to indicate landlords who are pursuing this strategy.

Landlords who are increasing the energy efficiency of their building are more likely to be recent owners ($r=.11$, $p<.10$), to have properties exhibiting higher than average annual increases in property values ($r=.22$, $p=.005$) and higher per unit rents and per unit net rental revenues ($r=.16$, $p<.05$ and $r=.17$, $p=.01$ respectively). We cannot determine whether energy efficiency improvements are the cause or the effect of more disposable income.

Landlords who are cutting back on maintenance or repairs are more likely to own older buildings ($r=.13$, $p<.05$ for maintenance and $r=.10$, $p<.10$ for repairs) and to have larger building portfolios ($r=.11$, $p<.10$ and $r=.14$, $p<.05$ respectively). If we isolate landlords who serve as the superintendent, the latter correlations between cost-cutting strategies and portfolio size are strengthened ($r=.20$ and $r=.26$ respectively). The correlation with portfolio size is therefore not just a function of the inability of smaller (superintendent) landlords to save money by cutting back on their free labour.

There is no statistically significant correlation between reducing maintenance or delaying repairs and whether or not the landlord has participated in the rent review process in the past. These strategies are, however, significantly related to the expected future likelihood of participation. Past participants who are deferring repairs are mildly less likely to anticipate reparticipation within the next five years ($r=.14$, $p \angle .10$) whereas non-participants who are deferring repairs are more likely to anticipate participation ($r=.28$, $p \angle .005$). This anomaly is discussed in Section 7.5.

If major repairs are needed to the building, the landlord is more likely to be delaying repairs than if minor repairs are needed (43 per cent versus 34 per cent). The difference between the extent of use of this cost-cutting strategy by landlords with buildings in need of major and minor repairs is not statistically significant but we believe it is substantively significant. We believe the worse the condition of the building, the more likely repairs are being delayed. We note in support that a similar crosstabulation for the full set of MMAH landlords does show a statistically significant split between strategies of owners of buildings in need of major and minor repairs.

We cannot confidently pinpoint the reduction of repair quality as cause of poor physical condition as we do not know the condition of the building at the time of purchase. We can point out that the pursuit of this strategy will accelerate the natural deterioration of the building. This may affect the health and safety of the tenants. It could also threaten the loss of the stock from its current market role if repair needs build to such a critical level that the only viable alternatives are demolition or gut renovation.

It is interesting to note what happens to the relationship between need for repair and reduction of repair levels when we control for whether or not the respondent has applied to the RTC for a whole building review in the past. Among previous participants, those who perceive a need for major repairs are less likely to be delaying repairs than those who perceive a need for minor repairs. The relationship has reversed and weakened ($p < .10$). It may be that the landlords who are able to use the rent review system are waiting until minor repairs build into a need for major repairs before effecting them and applying to pass through the costs. The relationship is the opposite and very robust ($p < .05$) if the landlord has not previously applied to the RTC: 44 per cent of non-participants who consider their buildings to need major repairs are delaying repairs or reducing repair quality versus 27 per cent of non-participants who feel only minor repairs are needed. The former may anticipate selling or altering the market role of their property through substantial renovations or redevelopment* rather than apply for a rent review hearing. Given the reported importance of perceived difficulties of rent review hearings as reasons for not applying in the past, it may be that these perceptions are having a deleterious effect on the physical condition of some of the stock.

4.4 Rent Setting Tactics

We asked our landlords a series of questions designed to elicit an indication of the extent to which they abide by the rent control and review legislation. Twenty per cent of those landlords who have previously participated in the rent review process first attempted to negotiate the rent with their tenants without involving the Commission. Individual sole owners and husband and wife co-owners are most likely to have tried to negotiate rents (30 and 27 per cent respectively) and corporations, limited companies and unrelated partnerships least likely (four per cent, $p \angle .10$). This is probably, at least partly, a function of the numbers of tenants involved - direct negotiations are probably easier when there are relatively few tenants.

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* Landlords (participants and non-participants) who are delaying repairs are more likely to be planning to sell the building within the next three years (38 per cent versus 20 per cent of those who are not delaying repairs, $p < .05$).

Thirty-six per cent of the landlords reported that they had increased their rents by less than six per cent since 1978.* There is no statistically significant variation by ownership type for this practice, but landlords with larger portfolios are slightly more likely to have increased rents by less than the statutory maximum ($p \angle .10$).

The reasons cited for the less than six per cent increase were: tenant relations, tenant turnover and that there was no need for a higher increase. Two of the 64 landlords who answered this open-ended question stated that the Commission's ruling demands less than a six per cent increase, and two others stated that they had not increased the rent at all since 1978.

Seventeen per cent of our respondents reported they had increased rents by more than six per cent without RTC approval since 1978. In other words, at least 17 per cent of our study population are knowingly or unknowingly breaking the law by unilaterally raising rents beyond the statutory maximum. Of those who had increased their rents by more than the statutory maximum, 36 per cent (or six per cent of the total sample) stated they had done so within the last year. There are no significant variations by ownership type but landlords who have illegally increased rents tend to have smaller buildings and medium sized portfolios. The average number of units in the sample property is 10 for landlords who have illegally increased rents versus 14 units for other landlords ($p \angle .05$). Thirteen per cent of landlords with only the one building had increased rents by more than six per cent without government approval compared to 30 per cent of those with medium sized portfolios (more than one building but one to twenty units in the rest of the portfolio) and 16 per cent of those with larger portfolios ($p=.05$).

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* In 1977 the statutory maximum was dropped from eight to six per cent.

There is no significant association between this practice and whether the landlord has ever participated in rent review. In other words, participation or circumvention are not mutually exclusive practices but alternatives to be pursued according to the specific circumstances. Landlords were not asked if they had negotiated these illegal rent increases with their tenants or if they had taken advantage of the tenants' ignorance or a vacant unit. The data indirectly suggest negotiation takes place to some extent: among past participants in a rent review hearing, those who first tried to negotiate rents with their tenants before applying are more likely to have illegally increased rents at some point in the past seven years (47 per cent of negotiators have illegally exceeded the six per cent limit versus 12 per cent of non-negotiators ($p \angle .005$)).

While a minimum 17 per cent of respondents admit to raising rents beyond the allowable limit without seeking RTC approval, the question remains as to what extent this represents the actual incidence of circumvention. We feel the 17 per cent underestimates the true incidence for the following reasons: 46 per cent of non-participants (or 24 per cent of all landlords) have not applied for a hearing because their tenants agreed to the rent increases. The implication from the wording of the question is that these (unspecified) increases were in excess of six per cent. These landlords tend to own smaller portfolios ($r=.25$, $p \leq .01$) of units and they are less likely than other landlords to be delaying repairs ($r=.18$, $p < .05$). This suggests tenants may be agreeing to rent increases in exchange for repairs or improvements.

The MMAH data available for a subset of our landlords show that 40 per cent of their tenants reported rent increases in excess of six per cent between 1983 and 1984.* Not all of these will be illegal increases and we had surveyed two tenants per landlord. As an indication of the potential annual rate of circumvention, 20 per cent of landlords (by tenant reports) had increased their rents in at least one building by more than the statutory maximum, yet only six per cent of this sub-sample of landlords admitted to so doing without applying for an RTC hearing.

To provide another indication of the potential actual extent of circumvention, we asked landlords to indicate to what extent they agreed or disagreed with landlords who did not apply for government approval of rent increases when they had refinanced, or effected repairs, or the tenant had agreed, or the lease was up. Just over half (44 per cent) of landlords agreed with the practice, one third disagreed (26 per cent strongly so) and 12 per cent were neutral.

Those who agreed are more likely to require a larger rent increase before they feel it would be worthwhile to apply for a hearing ($r=.14$, $p=.05$), to be using the sample property for financial leverage ($r=.12$, $p \angle .10$) and to have higher typical unit rents in the sample property ($r=.12$, $p=.05$). They are also less likely to anticipate applying for a rent review hearing in the near future ($r=.20$, $p \angle .05$ for previous participants and $r=.17$, $p \angle .10$ for non-participants) and are more likely to have illegally increased rents in the past (22 per cent of those who agree admit to having illegally increased rents versus 11 per cent of those who have not, $p \angle .005$).

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* Forty-one per cent of the total tenant population surveyed who had lived in their units for at least one year indicated rent increases over six per cent between 1983 and 1984.

The popularity of the attitude that circumvention is justified does not by itself indicate that large numbers of landlords are circumventing the legislation. We therefore went on to ask how common they feel the practice of avoiding rent review is among the landlords with whom they are familiar. Thirty-one per cent feel it is rare, 46 per cent feel avoidance is a common practice and 22 per cent neither rare nor common. Twenty-two per cent feel it is extremely common. There are no statistically significant differences between the responses of participants and non-participants. It is interesting to note, however, that among non-participants, those who did not apply because they were intimidated by the process are significantly more likely to perceive the practice as common ($r=.28$, $p \angle .05$) as are non-participants who feel their financial records would be inadequate for rent review purposes ($r=.27$, $p \angle .05$). Landlords who did not apply because their actual cost increases were less than or equal to the maximum allowable are more likely to feel the practice is rare ($r=.22$, $p \angle .10$). To the extent that this variable functions as a partial proxy for the actual practices (because it is easier to attest to the practice than to admit to it) we expect that the actual extent of rent review avoidance could be in excess of one third of landlords.

5.0 AWARENESS AND KNOWLEDGE OF RENT REVIEW

In this chapter we explore landlord awareness and knowledge of the rent review legislation and process. A summary measure of knowledge and awareness was developed and a series of correlations were run to determine the relationships between knowledge and building and portfolio characteristics, and whether the landlord had participated in the rent review process in the past. The discussion of the index and the results of the correlations are presented in Section 5.2. In this first section we briefly describe general levels of landlord knowledge and awareness.

5.1 General Levels of Awareness and Knowledge

Ninety-eight per cent of the landlords surveyed are aware that a system of rent controls exists in Ontario. These high levels of awareness are to be expected as the system has been in operation since 1975, and 99 per cent of our respondents are covered in terms of their sample property (moreover, the three properties which are exempt all have owners who have previously been through the rent review process).

When respondents were asked the maximum percentage by which they could raise rents before going to the Residential Tenancy Commission, the answers ranged from four to 20 per cent. Seventy-nine per cent responded correctly by answering six per cent. Newspapers had reported, shortly before the survey, that the six per cent statutory minimum would be decreased to four per cent in the near future and this probably accounts for the six per cent who cited this figure. Fifteen per cent were clearly incorrect in stating five per cent or figures in excess of six per cent. Seven per cent of landlords believe the statutory maximum to be in excess of six per cent.

The landlords were also asked whether or not certain specific situations required rent review. (In the discussion which follows, unless otherwise indicated, we have assumed landlords who did not respond did not know the correct answer.) Generally, landlords are knowledgeable about which situations require approval of the Commission, however, in two situations a strong majority of the landlords did not answer correctly or could not answer. These were when the rental unit is a rooming house (only 20 per cent knew a review is required)* and when the rental unit is a private home or townhouse (only 36 per cent answered correctly that rent review is required). These results are not surprising as our sample did not include private homes and included only a small number of rooming houses (less than four per cent of the sample). The vast majority of our respondent landlords would not necessarily need to know this application of the law.

Other response rates that should be noted with some alarm are: 30 per cent feel RTC approval is not required for higher than allowable increases if the tenant agrees to the increase and a further five per cent did not know whether or not approval is required. Twenty-two per cent of landlords feel they can raise rents with impunity if the tenant's lease is up and another seven per cent do not know the answer. Nineteen per cent feel it can be done to correct a negative cash flow, and an additional nine per cent do not know the answer. Table 5.1 below displays the incidence of incorrect responses.

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* Rooming houses are in theory covered by the rent regulation legislation but in practice are effectively excluded.

TABLE 5.1
Incidence of Incorrect Answers to Questions Concerning the Need for RTC Approval

	Percentage of Total Sample	Percentage of Respondents
Building is a rooming house	80.5	64.0
Rental unit is a private home or private townhouse	64.3	47.9
Tenant agrees to the rent increase	34.8	29.7
Rental unit was just built or rented recently	36.7	22.2
Current unit rent is above $750 .	35.7	22.0
Tenant's lease is up	28.6	21.9
Cash flow is negative	28.1	19.3
Building is a new rental property	30.0	15.5
Last rent increase did not cover increased operating costs	22.4	15.1
Major repairs or improvements have been done	21.0	14.4
Building has less than 20 units .	23.3	10.6

Respondents were also questioned about the types of costs which can be passed on to tenants under the rent review system. Our findings suggest many landlords may be financially in a worse position than they need be because of their ignorance of the cost-pass-through provisions. At least 19 per cent of respondents are unaware that the costs of major repairs or replacements can be legitimately passed on to tenants through the rent review system and 21 per cent do not know that increased operating costs can be passed on. One out of three landlords are unaware that increased building management costs can be passed on to tenants through rental increases. Greater numbers of landlords were misinformed about the other costs which could be passed on. Forty-one per cent did not know that a negative cash flow resulting from the purchase of the building could be passed on, just over half did not know that the cost of hiring professionals to assist in the rent review process is a legitimate cost and over one third are unaware that losses due to vacancies or bad debts can be passed on.

The majority of respondents were only able to answer after an appropriate prompt. Combining both respondents and non-respondents (these latter were added to the respondents giving incorrect answers), the majority of our sample knew the correct answer for each item, with two exceptions. The exceptions are the losses due to vacancies and bad debts (70 per cent answered incorrectly or gave no response) and costs of obtaining professional assistance to go through the rent review process (62 per cent answered incorrectly or could not supply an answer). Table 5.2 displays the incidence of incorrect answers for the combined prompted and unprompted respondents and for the total sample.

TABLE 5.2
Incidence of Incorrect Answers to Questions Regarding Costs Which Can be Passed on to Tenants

	Percentage of Total Sample	Percentage of Respondents
Losses due to vacancies and bad debts	69.5	63.0
Costs of professional assistance for rent review	62.4	52.4
Negative cash flow from purchase of building	48.6	41.0
Increased building management costs	41.4	33.9
Increased operating costs	28.1	21.4
Expenditure for major repairs or replacements	25.2	18.6

We had hypothesised that previous experience with the rent review process would affect the accuracy of knowledge. Landlords who had applied to the RTC in the past are more likely to have correctly answered the questions regarding the need for RTC approval, although the relationships are not always statistically significant. Those items for which correct answers are (statistically) significantly associated with previous experience are: knowing that approval is required even if tenant agrees to the rent increase, if the building is less than 20 units or the rental unit is a private home or town house, and knowing that approval is not needed if the building is a new rental property or the rental unit was rented recently for the first time.

The answers to the questions regarding which costs landlords can legitimately pass on to their tenants through rent review is generally unrelated to whether or not the landlord had applied for rent review. Only one statistically significant relationship exists: landlords who had applied in the past are over one and a half times more likely to answer correctly that losses due to vacancies or bad debts can be passed on to their tenants.

5.2 Summary Measure of Knowledge

A summary index for knowledge and awareness was computed using various individual knowledge indicators (see Appendix C for a detailed description of the index). With this measure, a landlord who has a thorough knowledge of rent control and rent review could score a maximum of 18. The worst possible score, indicating landlords with no knowledge of the process, is zero.

The mean score for the scale is eleven (median is also eleven) which is equal to 61 on a one to one hundred scale. Twenty-nine per cent of the respondents scored nine or less (i.e., were incorrect in their answers to at least half the questions concerning the process). Twenty- eight per cent of the respondents provided correct answers to at least 14 of the 18 questions, or just over three quarters of the total number of questions. Table 5.3 displays the distribution.

TABLE 5.3
Distribution of Landlords by Scores on the Knowledge Index (Column Percentages)

Scores	
0-9	29.0
10-13	42.8
14-18	28.1

In general, landlords with larger portfolios have a better knowledge of the rent review process than smaller scale operations ($r=.20$, $p<.01$ for total number of buildings, and $r=.16$, $p=.01$ for total number of units). Remember that larger scale landlords are more likely to have participated and participated more frequently. It is not surprising that knowledge scores increase with the percentage of the landlord's total investment that is residential real estate and the percentage of total income made up of net rental revenues from the sample building ($r=.13$, $p=.05$ and $r=.17$, $p<.05$). Landlords who are better informed also tend to have higher mortgage debt ratios for the sample building ($r=.19$, $p=.01$). This may result from their greater vulnerability to mortgage interest rate fluctuations, or because they are more sophisticated operators who spread their equity more thinly across a larger portfolio. Better informed landlords may also have larger mortgages because they know that mortgage costs, in certain circumstances, can be passed through, but equity costs cannot.

By correlating the summary measure of knowledge with indicators of landlord management strategies, we also discovered that the more important it is for the landlord to contain or reduce building operating costs ($r=.24$, $p<.001$), to increase long term equity ($r=.14$, $p<.05$), to minimise tenant turnover ($r=.12$, $p<.05$) and to obtain a high annual income from the building ($r=.12$, $p=.05$), the greater the landlord's knowledge of the existence and application of rent controls. In addition, knowledgeable landlords have lower rates of return on initial equity and capital ($r=.13$, $p<.10$ and $r=.14$, $p<.10$ respectively) and are likely to be delaying major repairs or reducing the quality of the repair work on the building ($r=.14$, $p<.05$). These relationships suggest landlords who are concerned about their financial situation take the trouble to inform themselves about the legislation.

These relationships vary somewhat depending on whether or not the landlord has participated in the rent review process. For example, the relationship between knowledge and the importance of obtaining a high annual income or the extent to which repairs are being delayed is not significant for previous participants. The other management strategies, however, remain significantly associated with knowledge. Conversely, obtaining a high annual income from the building and delaying repairs are significantly, positively associated with the knowledge scores of non-participants, along with the importance accorded to the strategy of reducing maintenance ($r=.15$, $p<.10$), maintaining the building for resale ($r=.15$, $p<.10$) and ensuring steady long term earnings ($r=.16$, $p<.10$).

5.3 Knowledge Scores and Participation

In this section, we discuss the effect of previous participation on level of knowledge, and the relationships between knowledge and future participation in rent review. Past participation is only one source of information (or misinformation) among others, and the final section in this chapter discusses the relationship between these other sources and level of knowledge.

Overall knowledge scores tend to be higher for landlords who have previously been through the rent review process than for those who have never applied. An analysis of the variance in knowledge scores between the two groups showed that the difference is statistically significant ($p \angle .01$). Previous participants were two times more likely than non-participants to correctly answer over 70 per cent of the questions in the knowledge index. Conversely, non-participants were two times more likely than participants to answer at least half of the questions incorrectly. We did not find levels of knowledge to be correlated with the number of times a respondent has applied or with the success of the application (as indicated by approval of the percentage increase sought).

We tested for any correlations between the score on the knowledge index of past participants, and the reasons for last applying for an RTC hearing and likelihood of reparticipation. With respect to the former, there are few significant correlations. For landlords who have participated in the process, the higher the level of knowledge, the greater the importance attributed to high operating costs as a reason for last going to the RTC

($r=.27$, $p<.01$). Also, the more knowledgeable landlords were less likely to have needed to apply in order to recover financial losses from the purchase of the property ($r=.16$, $p<.10$). Hiring a professional to advise on the rent review process does not appear to be (statistically) significantly associated with the level of knowledge, however, landlords who scored low on the knowledge index tended not to use outside professionals.

No correlation was found between knowledge and the likelihood of reparticipation by past participants, however, past participants who are more knowledgeable are more likely to rate the hearing process as difficult ($r=.22$, $p<.05$), indicate that rent review had a negative impact on tenant relations ($r=.22$, $p=.01$), feel that the Commission did not handle the hearing in a fair manner ($r=.19$, $p<.05$) and feel dissatisfied with their overall experience with rent review ($r=.16$, $p<.10$). In general, landlords who have a better understanding of the legislation based on prior experience tend to be harsher in their opinions of rent review and with respect to overall government policies and regulations affecting residential landlords ($r=.14$, $p<.05$).

Of the landlords who have never participated in the rent review process, those who think that their financial records would be adequate for the purpose of a hearing are significantly more likely to have a better knowledge of the rent review process ($r=.21$, $p<.05$). It is interesting that better informed non-participants are more likely to feel intimidated by the process and cite this, as well as an unwillingness to cope with the paper burden, as important reasons underlying their lack of participation ($r=.18$, $p<.05$ for both correlations). Another reason for non-participation which is significantly correlated with knowledge is the cost of hiring assistance for the hearing. Again, the greater the landlord's knowledge of the process, the more likely he or she felt that the cost of hiring assistance was too high and therefore opted not to participate (r=.16, p∠.10). It may be that landlords are over-confident about the adequacy of their financial records, but it is apparent that many feel they lack the necessary skills, time or money to participate and that this perception is grounded in a fairly realistic appraisal of the legislation.

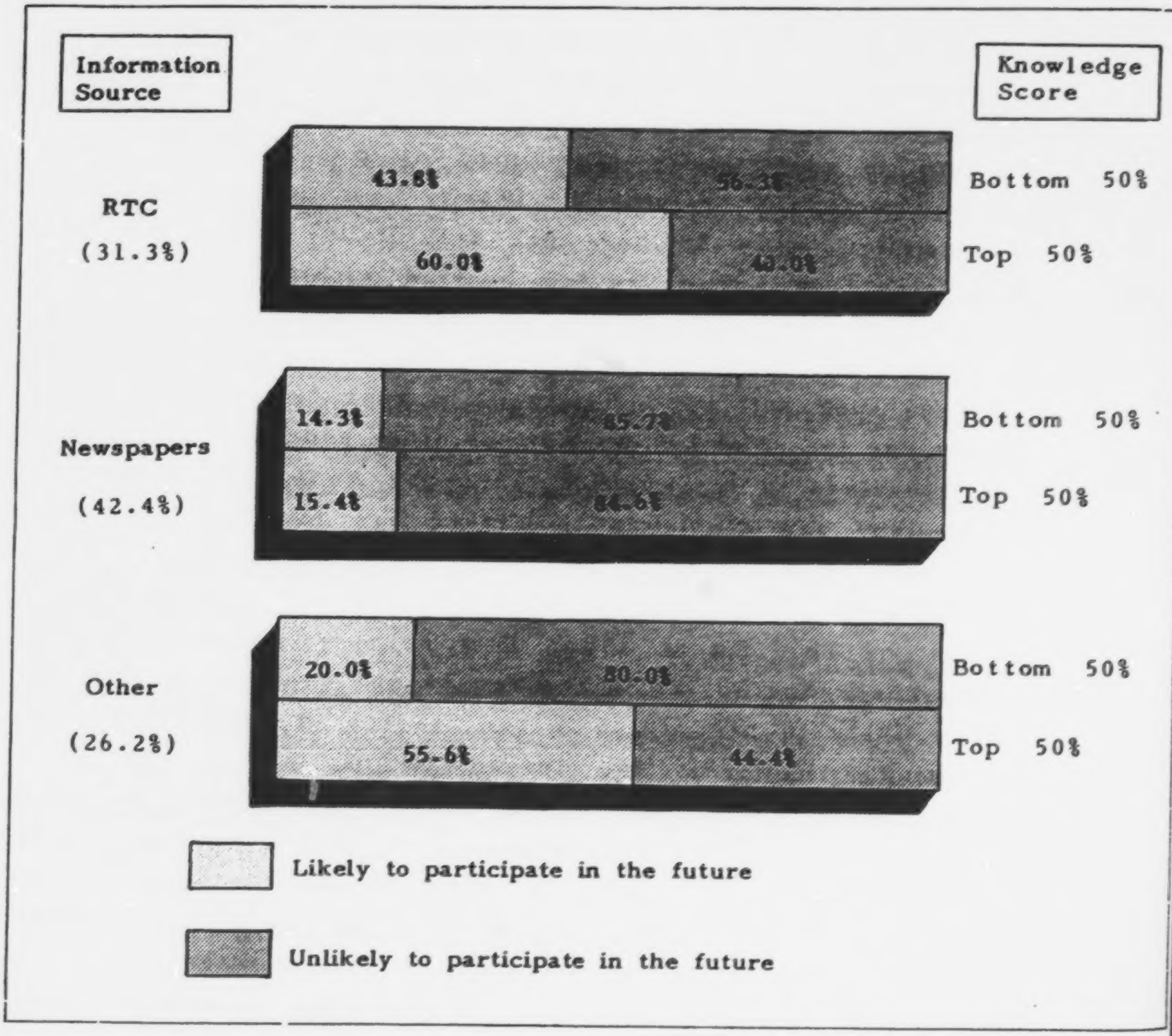
Landlords who know the process are more likely to cite underestimation of actual cost increases as a reason for not applying (r=.17, p=.05). (Landlords who cited this reason are more likely to be delaying repairs (r=.26, p∠.01) and reducing maintenance quality or staff (r=.27, p∠.10) but they are also more prone to intend to apply for rent review in the future (r=.16, p∠.10) so it does not appear that their methods for recovering from their mistake extend to increasing rents above the six per cent allowed). In general, non-participants with higher knowledge scores are more likely to indicate that they will be applying for rent review in the next five years (r=.22, p=.01) and it may be that they are more knowledgeable because they expect to apply for a hearing in the near future.

5.4 Other Sources of Information

In order to correct misconceptions and improve general levels of knowledge, it is important to understand how non-participants have gained their knowledge. Non-participants were asked to specify their main source of information about the legislation and process. Those who indicated that they relied on the RTC for information tended to score higher on the knowledge scale than those who relied on other sources. Newspapers were the most frequently cited source of information, however, landlords relying on newspapers were three times more likely to score in the bottom tercile on the knowledge index than those relying on the RTC (this relationship between knowledge and information source is statistically significant at $p \angle .05$). Of those non-participants relying primarily on newspapers for information, only 15 per cent feel it is likely they will participate in a rent review hearing within the next five years while 85 per cent are neutral or deem this unlikely. Newspaper-informed landlords are two times more likely to believe they will not participate in rent review than those landlords informed by the RTC or other sources. Frequency distributions of information source by knowledge score and intentions are displayed in Figure 5.4 for landlords who have not participated to date.

This figure shows that non-participant landlords with knowledge scores in the top 50 per cent are in general more likely to participate in rent review in the future. In addition, landlords who intend to participate are more likely to be obtaining their information from the RTC than from other sources. This probably reflects a combination of two factors: i) landlords with serious intentions are obtaining their information primarily from the RTC and other professional sources, rather than from newspapers; and ii) newspaper accounts may be discouraging landlords from participation.

FIGURE 5.4
Distribution of Landlords by Information Source, Level of Knowledge and Participation Intentions



5.5 Factors Predicting Level of Knowledge

In order to predict landlord knowledge of rent review, we ran several multiple regression models using the knowledge index as the dependent variable and property management strategies, portfolio and building characteristics, future intentions and attitudinal indicators as independent variables. The choice of the independent variables was based on the original conceptual model and the significant correlations we found among sample statistics.

In doing this analysis we considered the potential problems of multicollinearity and heteroskedasticity. We do not feel these are a problem - the reader can review the correlation matrices contained in Appendix C. Scattergram plots of the residual values revealed no functional forms which would indicate heteroskedasticity or unidentified predictive variables.

The overall predictive power of the regression models explaining knowledge scores for all landlords was not strong. The best model explains 20 per cent of the variance of the knowledge scores about the mean. This model involved the following terms, presented in order of their importance*:

- the more important it is for the landlord to reduce or contain rising operating costs, the higher the knowledge score.

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* In the discussions of all the regression models presented in this report, the order of the terms is always that of their statistical importance (starting with the most important) based on a step-wise regression using forward selection.

- the larger the number of buildings that the landlord owns, the better the knowledge score. Larger scale landlords are more likely to have a fairly sophisticated operational strategy and this will include learning about the legislative environment.

- the lower the per unit net rental revenue, the better the knowledge score. This likely reflects a greater need to know. Landlords with lean profit margins may be less able to avoid participation if operating costs are rising just above six per cent per annum.

- the more knowledgeable he/she is with respect to the legislation, the more likely the landlords will apply for a rent review hearing within the next five years.

- the greater the current mortgage debt ratio, the more knowledgeable the landlord is about rent review. This may reflect a particular financial management style (low equity in multiple properties) as well as greater vulnerability to interest rate changes (which may require application for a review hearing).

- the attitude of the landlord towards rent review (as expressed by a summary scale of eight individual attitudinal ratings) is also associated with knowledge. The term is very weak but indicates that the better the overall attitude, the lower the level of knowledge. This might be more of an effect than a cause - in other words knowledge rises through need to participate and those who have participated or need to are understandably more negative about the process than those who do not have to.

We can increase the predictive power of the statistical model if we distinguish between past rent review participants and non-participants. This next model, which explains 31 per cent of the variance, focuses on non-participants as these landlords tend to have lower levels of knowledge and are more likely to avoid participation through ignorance or inadequacies in their understanding of the legislation. The model suggests smaller, less sophisticated landlords who are more willing or better able to avoid rent review, through direct negotiations or other forms of circumvention, will have the least need or desire to inform themselves about the legislation. The significant terms enter the model in the following order:

- the higher the number of buildings in the landlord's portfolio, the greater the range and accuracy of his or her understanding of rent review;

- the more importance the landlord places on obtaining a high annual income from the property, the greater the level of knowledge. While these landlords have not applied for rent review in the past, the more sophisticated operators will be aware of its applications in order to ensure that they are maximising their cash flow from the property;

- the more the landlord disagrees with the notion that landlords are justified in circumventing rent review when repairs have been affected or the unit is vacant or the tenant agrees to the increase, the greater the knowledge about the system. Landlords who agree with the practice are probably more likely to follow it and therefore less likely to go to the trouble of learning about rent review. It is also possible that highly knowledgeable landlords were more wary in responding to such a sensitive question dealing with circumvention of the law.

- landlords who are delaying repairs or reducing repair quality are more likely to be better informed. This may be because the legislation allows the landlord to pass on repair and improvement costs but does not readjust rents once these costs have been amortised. Knowledge of this provision may be encouraging landlords to defer repairs until major work is required, in order to reduce the frequency of rent review application;

- landlords who feel their financial records are adequate are more likely to be well informed about the legislation. On the other hand, landlords who have not participated because they were unwilling to cope with the paper work involved are also more knowledgeable. These last two terms suggest that although the process is perceived as very difficult, these perceptions may be grounded in an understanding of the actual administrative requirements rather than a misunderstanding of what the process will involve.

5.6 Summary of Findings

Our survey has indicated that significant minorities of landlords are misinformed about the situations under which an application for a rent review hearing is necessary. Seven per cent of respondents believe the statutory increase is in excess of six per cent, as many as 35 per cent of landlords believe a hearing is not necessary for higher than allowable increases if the tenant agrees, 29 per cent believe this if the lease has terminated, 28 per cent if their cash flow is negative, etc.. These findings suggest a significant number will be illegally increasing rents through ignorance. The findings also indicate a minority of landlords may be reaping less of a financial return than is possible due to inadequate knowledge of the correct statutory maximum or of the cost-pass-through provisions. A more widespread incidence of circumvention may be encouraged if landlords believe the rent regulation system is more restrictive than it truly is.

Levels of knowledge are associated with the financial position of the landlord, the scale or sophistication of the operation, their attitudes to the essential fairness and likely outcomes of rent review, and their source of knowledge. It is reassuring to note that larger scale operators are better informed - thus circumvention due to ignorance is probably less of a problem in terms of the number of households affected. The relatively lower levels of knowledge of non-participant landlords who rely on newspapers as their major information source suggest this medium might be a useful vehicle for RTC publicity and information efforts. Finally our findings indicate participation in rent review improves knowledge levels, but that higher levels of knowledge are associated with more negative attitudes towards rent review.

6.0 ABILITY TO PARTICIPATE

One of the issues this research study was designed to explore is whether smaller landlords have a more difficult time of satisfying the reporting and presentation requirements of rent review proceedings. It is important to note at the outset the limitations on our ability to adequately address this question. First, the study population was restricted to smaller landlords and so we can only assess the impact of scale of operations in terms of the range represented by our respondents. Secondly, we collected the data by means of telephone interviews and thus the ability to participate is as perceived by the landlord and not as revealed by an examination of financial records or accounting practices. This is particularly limiting in the case of non-participants as they are more likely to be unaware of the true adequacy of their records and practices for the purposes of rent review.

This chapter treats past participants and non-participants separately. For participants we consider the use of outside professional help for the most recent whole building review and perceptions of the ease or difficulty of the process. For non-participants we consider expected need for outside assistance, perceived adequacy of financial records and the expected administrative burdens of participation.

6.1 Ability of Participants

Forty-five per cent of participants used professional help to prepare or present their case at the hearing. The fact that so many participants felt they required outside assistance (or were too intimidated to apply) indicates the reporting requirements and process are difficult or at least are perceived to be by a majority of landlords. Corporations were most likely to use outside assistance (61 per cent), followed by individual sole owners (54 per cent). About one third of related co-owners required assistance. Landlords who are most likely to have used professional help at rent review hearings appear to be individuals who need assistance in making the application and larger organisations perhaps because of the complexity of the documentation or expected opposition from well organised tenant groups. The per unit costs of professional assistance are also likely to decline with increasing building size.

The use of professional assistance is not significantly related to whether or not the landlord keeps separate records for each building or separates his or her personal and property financial records. As to the type of assistance used, 43 per cent used rent review consultants, 39 per cent used lawyers and 33 per cent used accountants. The cost of this assistance ranged from $0 to $6000 (one landlord did not pay for this assistance). Excluding this case, the average cost to the landlord was $1,255 (and the median cost $793). On a per unit basis, the mean cost was $80 and the median cost $41.

Not all were satisfied with the assistance provided. Of those who used professionals, 39 per cent would not hire outside assistance again. The most popular reasons for not using outside assistance should another review arise are because assistance in the past was unnecessary (47 per cent), did not make a difference to the outcome (35 per cent) or was too expensive (33 per cent).

On the other hand, 30 per cent of those who did not use outside assistance the last time would prefer to hire such assistance if they were to be involved in rent review again ($p < .0005$). In other words, should another hearing be necessary, 44 per cent of previous participants would want to hire outside assistance.

The fact that just under half of participants feel the process to be too difficult to navigate alone, based on past experience, suggests there is considerable room for improvement if the intention is to encourage legitimate participation. The costs of the administrative burden of rent review are also borne by the tenants in the form of higher rents and so easing these burdens will also benefit this population.

Participants were asked to give their impressions of the difficulty of the hearing process and the relative helpfulness of the people at the Commission. Just over half (53 per cent) of participating landlords found the hearing process difficult, 28 per cent found it easy and 18 per cent neither difficult nor easy. Those who found it difficult were asked why. From their answers it appears that some were not distinguishing between the arduousness of the paper work or the complexity of the proceedings and the essential fairness of the process. Thirty-eight per cent of respondents to this question volunteered that the process was biased against them, one third complained that the process was too time consuming and 14 per cent found it too complicated.

There are significant differences in the perceived difficulty among the different types of owners. Corporations and individual sole owners were most likely to perceive the process as difficult (87 per cent and 63 per cent respectively) and related partners and husband and wife co-owners least likely (43 per cent and 26 per cent respectively, $p < .01$). These findings again suggest the process presents especial difficulties for two groups - corporations specialising in rental residential properties who are concerned with the impartiality of the process, tenant relations, etc. and individual sole owners perhaps because of their singularity. Unless they hire outside help, they must take time off their regular jobs or duties to familiarise themselves with the intricacies of the rent review legislation and meet the demands of a hearing.

Landlords who perceived the process as difficult are more likely to have sample properties with higher typical unit rents ($r=.26$, $p < .01$) and more units ($r=.20$, $p < .05$) and to have larger portfolios ($r=.18$, $p < .10$) and higher levels of rent increases approved ($r=.31$, $p < .005$). These correlations with scale of operations, while very modest, are contrary to the hypothesised relationship (that smaller scale operators would have greater difficulty) although as we have noted, the very smallest do experience problems.

It is surprising to note that there is no strong correlation between the use of professional assistance and how easy or difficult participants found the process. Landlords who used outside assistance have a greater tendency to perceive the Commission staff as unhelpful (41 per cent versus 23 per cent of those who did not hire outside assistance) but these differences are only significant at the .11 level. Landlords who hired professional help are also more likely to perceive the Commission hearing as biased (56 per cent of those using professional help versus 35 per cent of those who were not ($p < .10$). This probably reflects the specifics of the case - the use of professionals may be more common in the more complex or contentious cases. Those who expect or perceive the Commission to be biased may also hire outside assistance to help mitigate the effects of this bias.

While many landlords feel the rent control and review process is unfairly biased against them, somewhat fewer feel the people at the Commission were unhelpful. Forty-five per cent of participants found the staff helpful and 31 per cent indicated they found the staff unhelpful (24 per cent rated them as neither helpful nor unhelpful).

The attitude of the landlord towards the quality of assistance provided by RTC staff is not significantly related to legal type of ownership, the level of knowledge of the landlord or the reasons for which the landlord applied for a hearing. It is related to the typical unit rent level - landlords at the low end of the rent range are more likely to have found the staff helpful ($r=.27$, $p < .01$). Landlords using the sample property for financial leverage or who are maintaining the building for resale are more likely to have found the staff unhelpful ($r=.23$, $p < .05$ and $r=.18$, $p=.05$ respectively). As might be expected, landlords who had higher percentage rent increases approved tend to have a positive attitude towards the people working for the Commission ($r=.19$, $p=.05$).

6.2 Ability of Non-Participants

It is interesting to note that non-participants are more likely to perceive the process to be difficult than are participants. Fully 63 per cent of non-participants think they would hire outside assistance should they become involved in rent review hearing. This attitude is not simply based on the feeling that the landlord's financial records would be inadequate as just seven per cent rated their records as inadequate for rent review purposes (60 per cent feel they are completely adequate and the remainder feel they are relatively adequate). Only one non-participant admitted to keeping no records. Of course, we do not know to what extent the financial records actually are adequate. We can only report the landlord's perceptions of their adequacy which may be based on incomplete or inaccurate knowledge of what is actually required.

Landlord perceptions of the adequacy of their records are not significantly correlated with their perceptions of the likelihood of their participation in rent review in the near future, nor with the lack of participation to date in rent review because of the paper burden or because the process intimidates the landlord. Landlords who feel their financial records are inadequate are, however, more likely to have not applied because the cost of hiring assistance for the hearing was thought to be too high ($r=.18$, $p \angle .10$).

Looking in greater detail at the three most important reasons for not participating - the paper work, cost of assistance and intimidation by the process - these are all aspects of the perceived ability to participate.

The three ratings are correlated with each other: landlords intimidated by the process are likely to feel the paper work is excessive ($r=.51$, $p<.001$) and the costs of outside assistance too high ($r=.38$, $p<.001$). Those who object to the paper work are likely to feel the costs of hiring outside assistance is too high ($r=.51$, $p<.001$). Despite the general perceptions of the adequacy or near adequacy of financial records, it is important to remember that most non-participants report they are constrained from applying because of the perceived documentation and participation burden. It is the minority who report they have not applied because the statutory increase covered the rise in their operating costs.

Landlords who perceive the paper work to be excessive are significantly more likely to have concentrated their investments in real estate ($r=.21$, $p<.05$), to have high initial mortgage debt ratios ($r=.26$, $p=.01$) and to rely little on the net rental revenues from the sample property as a source of income. The perception is unrelated to unit rents or portfolio size but would appear to be associated with a particular investment strategy focussing on return on equity.

Landlords who feel the cost of hiring outside assistance is so high they cannot participate in rent review are more likely to feel that a hearing would adversely affect tenant relations ($r=.20$, $p<.05$), to be delaying repairs or reducing repair quality ($r=.20$, $p<.05$) and to have larger portfolios of buildings ($r=.18$, $p<.10$) but smaller sample properties ($r=.20$, $p<.05$). They appear to consider the per unit costs unacceptably high and are more likely to be pursuing alternative cost reduction strategies.

Landlords who feel intimidated by the review process are more likely to be concerned with constraining rising operating costs ($r=.17$, $p \angle .10$), delaying repairs or reducing repair quality ($r=.18$, $p \angle .05$), to have higher concentrations of their total investments in real estate ($r=.23$, $p \angle .05$), larger portfolios of buildings ($r=.23$, $p \angle .05$), higher initial mortgage debt ratios ($r=.34$, $p < .005$) and lower pre-tax net rental revenues from the sample property ($r=.21$, $p \angle .10$). They are also more likely to feel that illegal rent increases are common practice ($r=.28$, $p \angle .05$). Again, these landlords appear to be pursuing alternative strategies for raising net rental revenues.

6.3 Summary of Findings

The assessment of the relative ease or difficulty of the rent review process appears to be bound up in the perceived fairness of the process. The onus is on the landlord to prove his or her case and this may be colouring perceptions of the difficulty of meeting the administrative burden. To the extent that the difficulty is reflected in the use of outside professional assistance, both the very small and the larger scale operators are experiencing greater administrative or reporting burdens although we suspect the larger landlords can spread these costs more thinly. Although not all landlords are satisfied with the outside assistance provided, a fairly stable minority will continue to avail themselves of this type of help (44 per cent expect they would use professional help for their next hearing).

Non-participants are almost one and a half times more likely than participants to feel they would use outside assistance should a hearing become necessary. This marked divergence between intentions based on experience and expectations based on other sources of information suggests greater efforts to inform landlords about the administrative requirements might reduce some resistance to participation. Reducing the reporting burden and improving knowledge of the cost-pass-through provisions for outside assistance should also not be neglected. The importance of the perceived reporting difficulties as a reason for non-participation and the association between this perception and the pursuit of repair cost reductions emphasises the need for alterations to the procedural requirements. We suspect that the perceived administrative burden may be one factor which serves to perpetuate a stable rent review participant group. The problem in this inertia is that the characteristics that determine who will participate or not may be unrelated to the quality of the housing service provided. The administrative burdens of participation may simply favour landlords with greater legal and/or accounting expertise.

7.0 ATTITUDES AND PERCEPTIONS

In addition to knowledge of and ability to participate within the rent review system, the conceptual model for the research posits that attitudes and perceptions will be an important factor predicting or explaining participation and reparticipation. In this chapter we explore these attitudes and perceptions in more detail. First we describe the direction and strength of attitudes along a variety of dimensions. We then identify the factors which help predict overall summary measures of attitudes of participants and non-participants and expressed intentions to participate or reparticipate in rent review.

7.1 Attitudes to Government Policies and Regulations

In the introduction to this report we had alluded to a widespread feeling among rental residential landlords that government policies and regulations are inimical to their interests. The survey conducted for this study supports this contention: 87 per cent of respondents feel that government policies and regulations treat them unfairly. This perception is not only common, it is strongly negative - 45 per cent feel policies and regulations are extremely unfair.

The strength and near unanimity of this hostility probably owe to more than the existence and operation of the rent control and review system in Ontario, but it is interesting to note that there are statistically significant differences between the ratings of rent review participants and non-participants. Those who had been involved in a whole building rent review are more likely to feel government policies are unfair*. Without significant changes to the legislation and process, more widespread experience with the system will continue to antagonize this population. The recently announced changes (reduction of the statutory minimum to four per cent, and the extension of the applicability of the legislation) will likely hasten this sensitization and heighten the antipathy.

Attitudes as to the essential fairness of government policies and regulations are not significantly associated with the legal type of ownership or with whether or not the landlord has increased rents by more than the statutory maximum without first seeking RTC approval. Landlords with lower typical rents, smaller portfolios and less of their total investments concentrated in rental residential real estate are less likely to perceive government actions as unfair ($r=.15$, $p<.05$; $r=.15$, $p<.05$; and $r=.18$, $p=.01$ respectively). Landlords who have increased rents by less than the six per cent allowable at some point since 1978 are somewhat more charitable in their assessment of government intervention: 21 per cent feel policies and programs are not unfair compared to nine per cent of landlords who have never increased rents by less than the maximum allowed ($p<.05$).

7.2 Attitudes to and Perceptions of Rent Review

Looking in detail at the specific attitudes and perceptions of participants and non-participants towards rent review, we find that of the 48 per cent who applied for a whole building review, 44 per cent feel the Commission handled the hearing in an unfair manner, 40 per cent feel their treatment was fair and 17 per cent neither fair nor unfair. It is clear that a substantial minority feel the hearings are biased, moreover 22 per cent feel they are handled in an extremely unfair manner (seven, or "extremely unfairly", is the modal category on the seven point scale).

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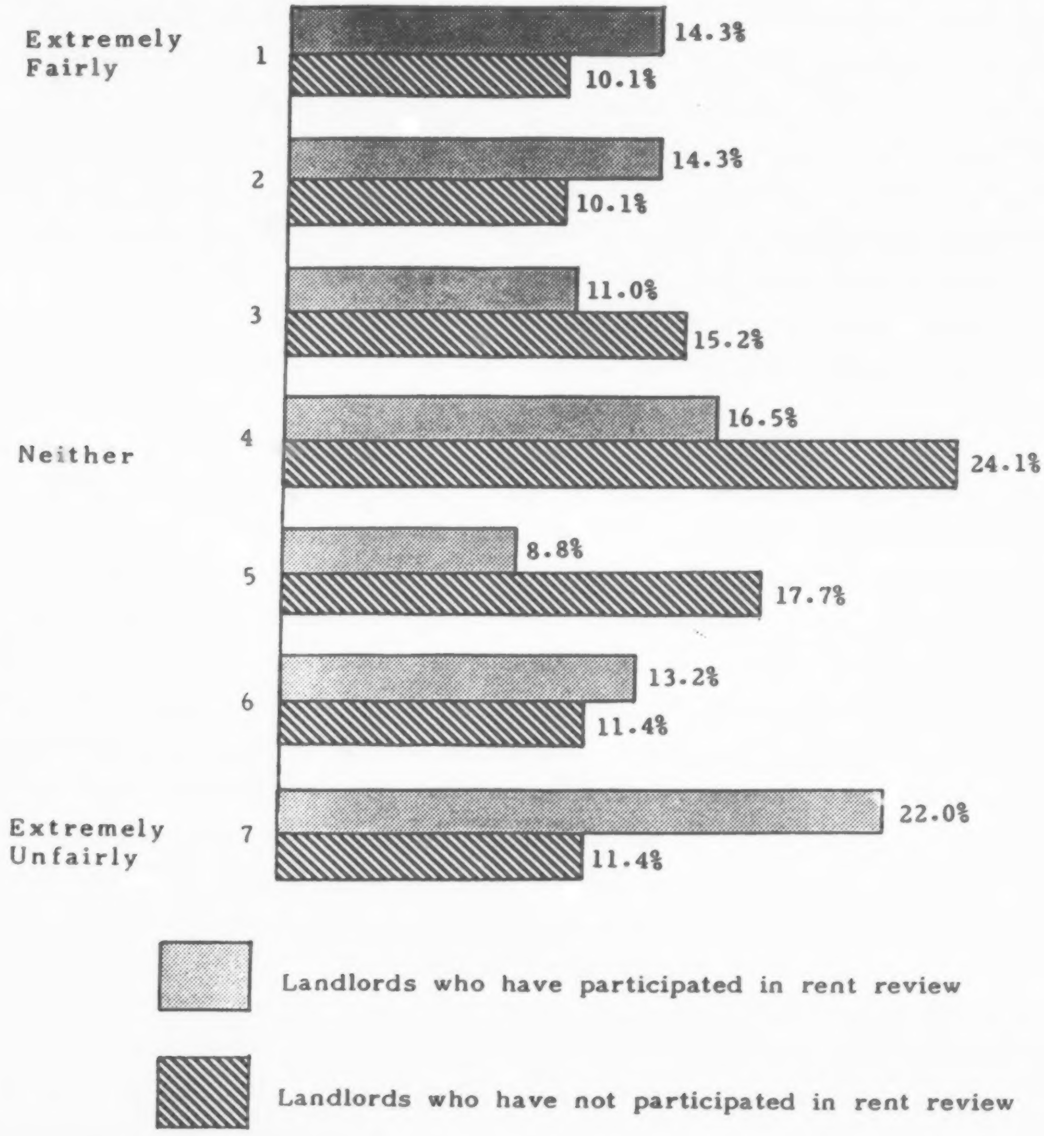
* On the one to seven scale, where 1 is extremely fairly and 7 extremely unfairly, the mean score for participants is 6.2 compared to 5.6 for non-participants ($p<.005$).

Non-participants were asked a similar question: how fair do they think the hearing would be if they were to go? The response pattern is quite similar as can be seen from Table 7.1. Thirty-five per cent feel they would be fairly treated, 41 per cent think the hearing would be unfair and 24 per cent neither fair nor unfair. There is no statistically significant difference between the participant and non-participant ratings.

Whether or not participants feel the Commission handled the hearing in a fair manner is not significantly associated with the type of ownership, size of portfolio, percentage of investment in rental residential real estate or whether the landlord has ever illegally increased rents by more than the allowable maximum (or increased them by less than the allowable maximum). Landlords who are using the sample property for financial leverage are less likely to consider the Commission to have acted in an impartial manner ($r=.31$, $p<.005$) as are landlords who are currently reducing maintenance staff or quality as a cost-cutting measure ($r=.15$, $p<.10$). Again we find the landlords of buildings with lower typical unit rents and lower mortgage debt ratios are more likely to have a positive attitude with respect to the Commission's impartiality ($r=.17$, $p<.10$ and $r=.20$, $p=.05$ respectively). Perhaps the strongest correlation is with the percentage rent increase approved ($r=.39$, $p<.001$).

TABLE 7.1
Comparison of Participant and Non-Participant Perceptions of How Fairly the Commission Handles Hearings



Non-participant perceptions of the likely fairness of the RTC hearings are not related to the type of ownership but they are correlated with the typical unit rent: the higher the rent level, the more likely the non-participating landlord will think that the hearings would be biased ($r=.18$, $p < .10$). These perceptions are also significantly associated with whether or not the landlord has ever illegally increased rent levels by more than the allowable maximum. Eighty per cent of landlords who have illegally increased rents feel the hearing would be unfair compared to 33 per cent of those who have not increased rents illegally. Expressed somewhat differently, seven per cent of those who feel the Commission would be impartial have illegally increased rents whereas 36 per cent of those who feel the hearing would be biased have illegally increased rents in the past ($p < .005$).

These perceptions are also correlated with the minimum percentage of rent increase that would be required before the (until now, non-participant) landlord feels it would be worthwhile to apply for a rent review hearing. The more the landlord feels the hearing would be biased, the higher the minimum percentage ($r=.23$, $p=.05$).

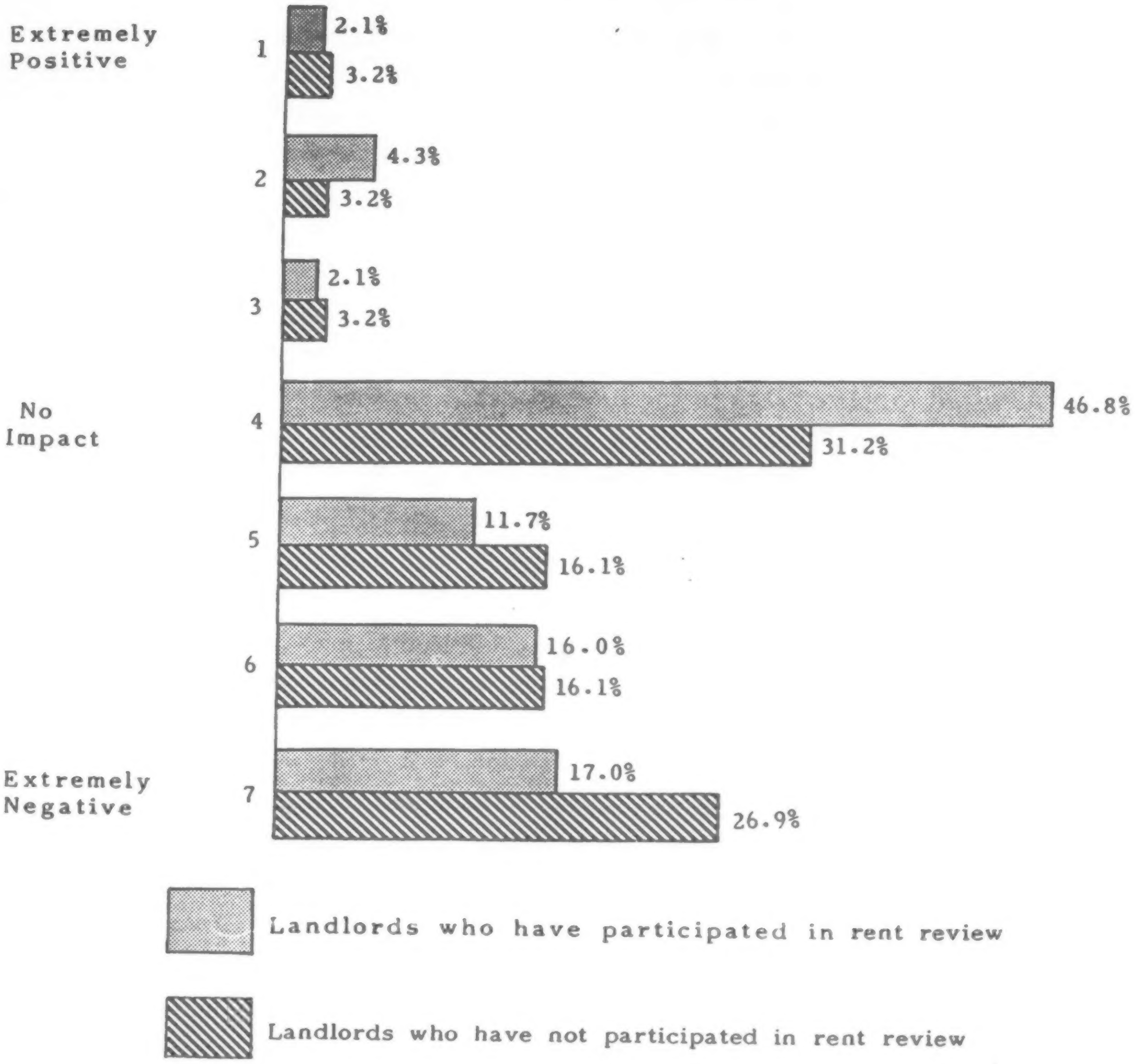
Participants were asked what impact the rent hearing had had on their relations with their tenants and non-participants were asked to judge the impact a rent review hearing might have. Forty-five per cent of participants feel participation had been harmful while the remainder perceived either no impact (47 per cent) or a positive impact (nine per cent). Non-participants were less sanguine - 59 per cent expect that going to rent review would injure tenant relations, 31 per cent expect no impact and 10 per cent anticipate a positive impact. The differences in these distributions are only statistically significant at the .15 level - i.e., there is a 15 per cent chance these differences are due to sampling error. The ratings are graphically displayed in Table 7.2.

Whether any variances between the perceptions of the two groups are grounded in pre-existing and systematic differences in the respective tenant populations or whether non-participants have an exaggerated notion of the potential for damage is difficult to ascertain with any precision. Non-participant landlords who perceive a great potential for damage to their tenant relations are only slightly more likely to have reported not participating because their tenants would have objected ($r=.14$, $p<.10$) but they are no more nor less likely to expect they will request a rent review hearing in the next five years. In other words, concern for tenant relations is not a major factor in the decision to participate or reparticipate.

Among participants, landlords who feel the hearing had a negative impact are more likely to have larger sample properties ($r=.23$, $p=.05$), higher typical unit rents ($r=.18$, $p=.05$) and larger portfolios ($r=.21$, $p<.05$). The direction or strength of the perception is unrelated to the percentage increase approved.

Among non-participants, the perception that a rent review hearing would have a negative impact on tenant relations is significantly correlated with the percentage of total investments in rental residential property ($r=.28$, $p<.01$), and the extent to which the landlord is actively maintaining the building for resale ($r=.21$, $p<.05$), trying to constrain rising operating costs ($r=.17$, $p=.05$) and reducing maintenance staff or quality ($r=.21$, $p<.05$).

TABLE 7.2
Comparison of Participant and Non-Participant Perceptions of Rent Review Impacts on Tenant Relations



Finally we asked participants to sum up their feelings about the fairness and difficulty of the process and the outcomes and effects and provide an indication of their general satisfaction or dissatisfaction with their overall experience. The overall ratings are more extreme than any of the individual ratings discussed to date: 61 per cent of participating respondents are dissatisfied (37 per cent are totally dissatisfied), 25 per cent are satisfied and 15 per cent neutral about the experience.

Overall satisfaction levels vary significantly among the different ownership types. Corporations are the most dissatisfied (82 per cent), followed by partnerships involving relatives (71 per cent) and individual sole owners (68 per cent). Husband and wife co-owners are the most satisfied (69 per cent, $p < .01$). Participants who are more dissatisfied tend to have higher typical unit rents ($r=.22$, $p < .05$), larger sample properties ($r=.24$, $p=.01$) and larger portfolios ($r=.10$, $p < .05$). Owners who are using the property for financial leverage are more dissatisfied ($r=.31$, $p < .005$).

7.3 Intention to Participate/Reparticipate

Landlords were asked to rate the likelihood that they would request a rent review hearing in the next five years. As can be seen from Table 7.3, there are statistically significant differences between past participants and non-participants: 57 per cent of past participants expect they will reparticipate compared to 31 per cent of non-participants ($p=.001$). This finding supports our thesis that there is considerable inertia in the client base: participants tend to re-apply and non-participants tend to remain outside the process. The client base becomes self-generating as landlords continue to adapt to their chosen route. Previous participants may be more likely to anticipate reparticipation because they are more familiar with the requirements and better able to deal with its exigencies. Through their participation experiences they learn how to better use the system. They may also have a greater need for rent review hearings - for example, they may be in the process of passing through financial losses from the purchase of the property or are less willing to pursue illegal circumvention strategies.

There are some interesting relationships between these expressed intentions and landlord characteristics. Among the previous participants, reparticipation is seen as more likely by partnerships with relatives (79 per cent), corporations (65 per cent) and husband and wife co-owners (62 per cent) than among individual sole owners (44 per cent, $p < .10$). The likelihood of reparticipation is unrelated to current management strategies, with the exception of a slightly greater possibility that landlords who are not delaying repairs expect to be going to rent review within the next five years ($r=.14$, $p < .10$). Landlords with a low current mortgage debt ratio and a low level of total investments concentrated in real estate are less likely to expect they will reparticipate ($r=.21$, $p=.05$ and $r=.26$, $p=.01$ respectively). Landlords with higher rates of return on initial equity are more likely to anticipate returning to rent review ($r=.20$, $p < .10$).*

Landlords who have applied more frequently in the past are less likely to feel they will need to in the future ($r=.18$, $p < .05$). Landlords who sought a higher percentage rent increase in the past are less likely to expect to reparticipate ($r=.25$, $p=.01$) but there is no significant

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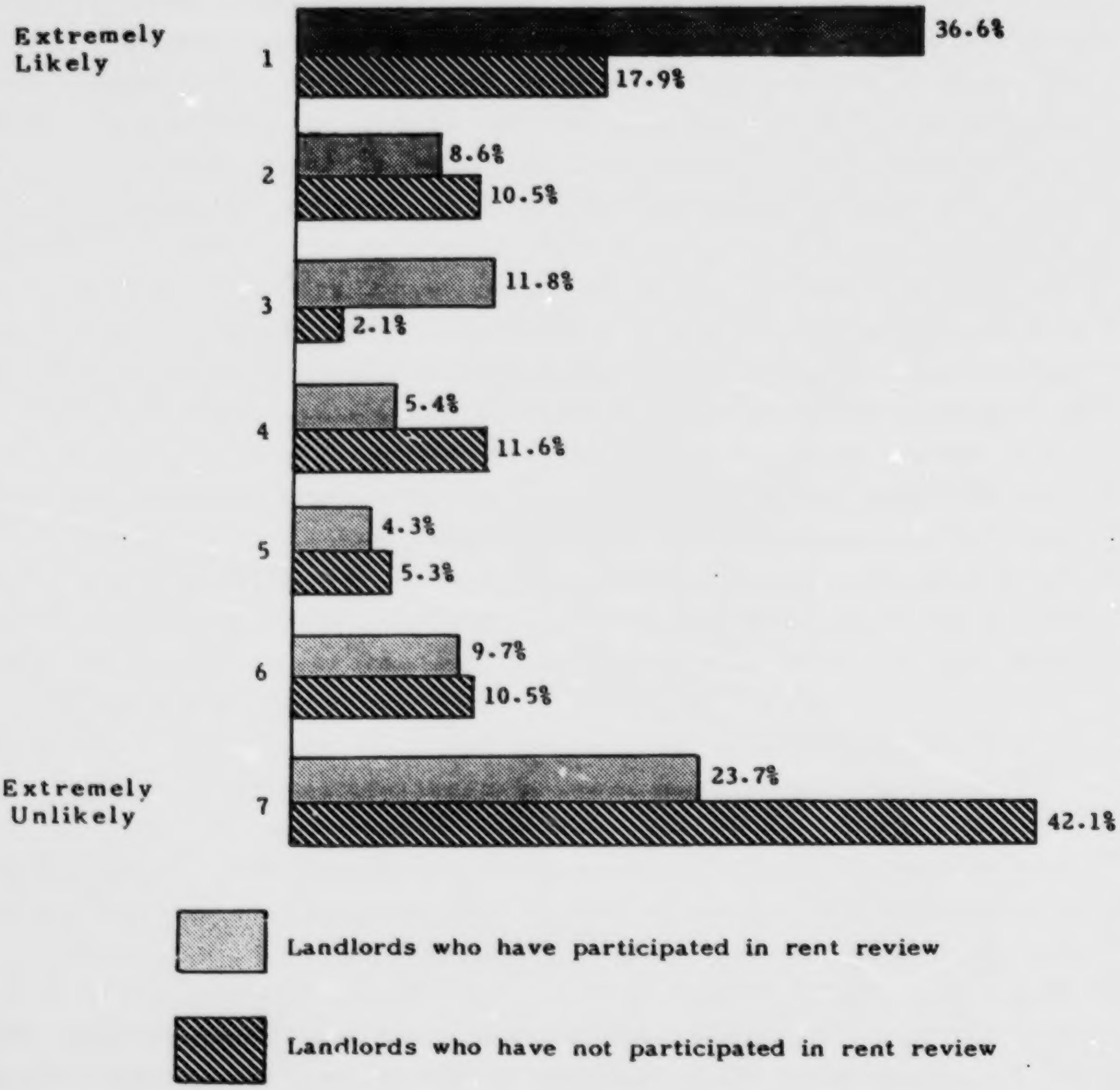
* The effective response rate for return on equity is low ($n=52$).

TABLE 7.3
Comparison of Participant and Non-Participant Opinions of Likelihood of Rent Review in Next Five Years



correlation with the percentage approved or the minimum percentage required before an application would be worthwhile. There is no significant correlation with the reasons why a landlord might have applied previously, with the exception of those recovering the capital costs of repairs or improvements: those who participated for these reasons are more likely to expect to reparticipate ($r=.15$, $p \angle .10$ and $r=.16$, $p \angle .10$ respectively).

Intentions are also correlated with the landlord's perceptions of the last experience with rent review: reparticipation is more likely if the landlord feels the Commission presided impartially ($r=.18$, $p=.05$), if the hearing process was seen as relatively easy ($r=.20$, $p \angle .05$) and if the Commission staff were considered to be helpful ($r=.23$, $p=.02$).

Anticipated future participation by landlords who have never applied for a whole building rent review do not vary significantly by type of owner or building or portfolio characteristics. Participation is more likely if the (up until now, non-participating) landlord is currently delaying repairs or reducing the quality of repairs effected ($r=.28$, $p \angle .005$), or reducing maintenance quality or staff ($r=.14$, $p \angle .10$). Participation is also more likely if the landlord has not applied because he or she underestimated actual operating cost increases ($r=.16$, $p \angle .10$) and if the landlord is achieving a low rate of return on both initial equity and capital ($r=.22$, $p \angle .10$ and $r=.20$, $p \angle .10$).* Future participation is unrelated to the perceived adequacy of the landlord's records, the minimum percentage rent increase thought necessary before application would be worthwhile or the anticipated fairness of the Commission's hearings. In general, future participants among this group appear to be those who have built up a need for capital improvements to their sample properties.

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* Responses are low for both rates of return ($n=45$).

7.4 Factors Predicting Attitudes Towards Rent Review

We created summary indices of participant and non-participant landlord attitudes towards rent review. These indices (described in more detail in Appendix C) are each composed of eight individual attitudinal ratings of such dimensions as perceived fairness and difficulty of participation, desirability of conforming to the law, etc.. Translated to a zero to 100 scale, the median scores on the index for past participants is forty and for non-participants, 39 (where zero is an extremely negative attitude and 100 extremely positive). While these numerical scores are virtually the same, one must keep in mind that the indices are created from different sets of individual ratings.

Several multiple regression models were run using these indices as the dependent variables and property management strategies, portfolio and landlord characteristics, level of knowledge of rent review, the relative success of past participation, etc., as the independent or predictor variables. The choice of the independent variables was based on deductive, a priori grounds (e.g., the initial conceptual model) and inductive grounds (e.g., the significant correlations we found using our empirical survey data). We used multiple regression as a statistical technique because it allows us to simultaneously and independently test the predictive ability of several independent variables.

In general, the predictive power of the regression models was modest - explaining at best approximately 30 to 40 per cent of the variance of the attitudinal scores about the mean. We do not feel the results are unreasonable in light of the under-identification of the models (discussed earlier in Section 1.3), the wide internal variation in landlord characteristics and the difficulty, in a survey of this nature, to accurately capture the full flavour of true attitudes given the sensitivity of the area of questioning.

The best model, explaining forty per cent of the variance, suggests participant attitudes are worse if the landlord is a larger scale operator, at the upper end of the rental market, achieved little at the last hearing attended and who has no expectation of reparticipation. The terms enter the model in the following order:

- the smaller the current mortgage debt ratio, the more positive the attitude to rent review. Lower mortgage debt ratios can imply reduced vulnerability to mortgage interest rate fluctuations. Higher ratios suggest a business strategy whereby investment funds are spread thinly over a larger portfolio. Landlords following this strategy may be more sophisticated operators who are cognizant of and unhappy with the impact of rent controls and review on their profit margins.

- success at the latest hearing is associated with attitudes to rent review: the higher the absolute percentage rent increase approved at the last hearing attended, the better the attitude.

- the typical unit rent level is significantly related: the lower the rent, the more positive the attitude. It may be that tenants are less likely or able to oppose increases when rents are low but the import of this term is probably that rent control is perceived to have more of an impact on the higher end of the rental range. The existence of a large pool of cheaper (controlled) stock may discourage landlords from raising rents as high as they would wish. As rents approach $750, controlled apartments may also be less attractive to potential tenants than the newer uncontrolled apartments.

- landlords who anticipate a higher likelihood of applying for a rent review hearing within the next five years are more likely to have a more positive attitude. Landlords who feel very negatively about rent review are unlikely to participate in the system. This term is probably more of an effect than a cause.

- the smaller the portfolio of rental residential real estate buildings, the more positive the attitude. Smaller scale landlords may have an easier time at hearings and this would affect their attitudes.

The best model of the factors predicting attitudes towards rent review held by landlords who have never participated in a hearing explains 31 per cent of the variance. The model suggests negative attitudes are more likely among smaller scale non-participants, those who are financially vulnerable, and those who expect a high administrative cost to participation in a hearing. The significant terms enter in the following order:

- landlords who had higher initial mortgage debt ratios are more likely to have very negative attitudes. Attitudes may reflect the vulnerability of the landlord to mortgage interest rate fluctuations (non-participants will then be forced to participate to recover higher financing costs) or a property investment style characterised by high equity leverage. Current mortgage debt ratios are similarly related to attitudes but the strength of the relationship is weaker.

- the minimum percentage increase the landlord would require before he or she feels it could be worthwhile to apply for a hearing is significantly related to attitudes. The higher this percentage, the more negative the attitude. We expect this term functions as an indicator of the perceived trade-off of costs and benefits of participation.

- landlords who feel their financial records are adequate for rent review purposes have more positive attitudes.

- landlords who are concerned about containing rising operating costs are more likely to have worse attitudes. They may resent being forced to reduce operating costs as a means of increasing profits.

- non-participant landlords with larger buildings have a better attitude. This may reflect the difficulty very small scale operators perceive they would face in meeting the rent review paper and administrative requirements.

Utilising some of the data collected from the 1984 MMAH survey we can increase the power of our models predicting attitudes to rent review. Due to limited number of cases (38 landlords) we have combined participants and non-participants. We can explain 41 per cent of the variation by three terms: the current rent as reported by the tenant, whether the landlord feels he or she would lose or make money if the property were to be sold today, and the overall building condition as assessed by a technical inspector. Attitudes are less negative if the rents are lower, the landlord is in a position to profit from his or her investment and the building is in good physical condition. The greater the need to apply for a hearing (due to negative cash flow or repairs to the building), the worse the attitude.

7.5 Factors Predicting Anticipated Participation/ Reparticipation

Multiple regression modelling was also used to predict the landlord's expectations of any future participation or reparticipation in rent review. The multivariate analysis was marginally more successful in explaining the likelihood of future participation by non-participants than the likelihood of reparticipation by landlords who had previously applied for a whole building review. The models should be interpreted cautiously since words do not always translate into behaviour.

The best model for reparticipation predicts 22 per cent of the variance about the mean. Reparticipation is more likely if the livelihood is derived from rental housing, the landlord is unwilling or unable to circumvent rent review, and is vulnerable to operating or financing cost increases. The significant terms in this model are:

- the percentage of the landlord's total investments represented by rental residential real estate - as the concentration rises, the landlord is more likely to expect he or she will reparticipate within the near future.

- landlords who found the Commission staff helpful at their last hearing are more likely to expect they will be reparticipating.

- the higher the current mortgage debt ratio, the greater is the likelihood the landlord will reparticipate. Presumably they are more vulnerable to mortgage interest rate fluctuations and therefore reparticipation to pass through financing cost changes is more likely.

- landlords who are delaying repairs or reducing repair quality are less likely to anticipate reparticipation. It may be that this cost cutting strategy is being used or seen as a substitute for reparticipation.

- landlords who strongly disagree with the practice of circumventing rent reviews are more likely to anticipate reparticipation. Landlords who agree with the practice are probably more likely to attempt to circumvent the legislation. This term may appear to be tautological but one must remember that non-participation may be possible for a variety of reasons - landlords may be able to negotiate rent levels with tenants, effect illegal increases or not need to participate because costs are increasing by less than the statutory increase.

- landlords with lower typical rent levels are more likely to expect they will be reapplying for a hearing. This may be because the six per cent increase on a low rent produces a small absolute increase and this may cause problems if economies of scale cannot be realised or if operating costs are increasing proportionately more in the lower rent segment of the stock (e.g., due to higher energy or repair costs in older buildings, etc.).

The best model predicting participation by landlords who have not yet applied for a rent review hearing explains 24 per cent of the variance. The model suggests participation is more likely if the landlord has built up the need to effect major repairs or replacements, disagrees with circumvention, and is fairly knowledgeable about the legislation. The following terms are significant:

- landlords are more willing to participate for the first time if they are delaying repairs or reducing the quality of repair work. Obviously they anticipate substantial remedial capital investments will be needed in the next five years.

- landlords who have not previously applied because their cost increases were less than or equal to the maximum allowable are more likely to apply in the future. The effect of this term is net of the effect of the first term, but it may indicate higher anticipated future increases in operating costs or future capital investments.

- landlords who condone other landlords who circumvent rent review are less likely to expect they will apply over the next five years.

- landlords who are more knowledgeable about the rent review are more likely to expect they will soon be applying. It may be that this term is somewhat tautological - landlords who anticipate a hearing may be boning up on the system application and requirements, but it may also be that better understanding of the law stimulates applications because landlords are aware of its application to their circumstances or because they feel more confident of their abilities to participate in the process.

We note an interesting interactive effect in these models. The impact of reduced repair levels on intentions to participate varies by whether or not the landlord has previously participated. Basically we find that for previous participants the reduced repair levels are associated with an avoidance of further involvement in rent review in the near future. We can suggest two possible explanations:

- fear of a public review of property management practices. Landlords reducing repair levels may fear a reciprocal exposure of occupancy and maintenance bylaw or fire safety standard violations by disgruntled tenants. Remember that 45 per cent of participants feel that the last hearing harmed relations with their tenants. This past experience might make them leery of further participation.

- reducing repair levels may be consciously pursued as an alternative method of improving the cash flow (or profit margin). For past participants, the pursuit of this alternative might be an effect of past experiences with rent review. Renovation stratgegies may also be effected in cycles extending beyond five to seven years. Participants who passed through renovation costs in the last few years may therefore not anticipate a similar sort of hearing within the next five years.

Landlords who have not applied for a hearing to date and who are delaying repairs are significantly (even more so than for previous participants) more likely to intend to participate. This effect may be due to the following factors:

- greater naïvité (relative to previous participants) as to the potential problem of reciprocal exposure of property maintenance practices or substandard physical condition of the property.

- greater need to seek relief through the cost-pass-through provisions of rent review for a critical mass of expensive repair and renovation problems. In this case, the cost-cutting strategy would be the cause, and the intended participation the effect.

In attempting to model expressed intentions regarding future participation in rent review, it is instructive to note that we can develop better fitting models when we consider previous participants and non-participants in distinct models. In other words we achieve higher overall levels of explanatory power (R^2) when we create two separate multiple regression models for each group. When we include all cases in one merged model, the stress caused by higher order interactive effects reduces the overall explanatory power and significance levels. Recall that a higher order interactive effect causes the reduced repair level/future participation relationship to reverse direction conditional upon whether or not the respondent has participated in rent review before. The lower levels of statistical significance for the merged, overall model are even more surprising given that with more cases (hence greater degrees of freedom), we would expect higher levels of sensitivity in the model. The substantive implication of these findings is that the causal dynamics underlying the decision to participate in rent review are structurally different for the previous participant and non-participant.

The lower level of goodness-of-fit not withstanding, it is illuminating to consider the results of a merged analysis of covariance model, where previous participation is considered as a "factor" (through dummy variable analysis). We also transform the seven point expectations of future (re)particiption rating scale into a dichotomous dependent variable (do not intend to participate versus all other responses).* This model will allow us to estimate the average "effect" of various predictor variables on the probability of (expressed) intentions to participate in the future. With the previous participation dummy variable in the model we can also estimate its impact on the perceived decision process of the landlords. This is important since the previous participation variable has one of the most dramatic impacts. Those who have participated before receive an additional 16 per cent chance of reparticipating. This shows that there will be a significant amount of reproduction in the system. "Participators" will tend to remain the participants and non-participants, who are clearly a very distinct group of landlords, will tend to remain outside of the review process (ceteris paribus). In other words, participation tends to perpeturate further participation and this inertia in demand for the system may also perpetuate the exclusion of those landlords who have been excluded from the process.

The other effects are basically as we have seen in the earlier models but the dichotomous dependent variable sheds more light on the independent variables as structural parameters. For example, the length of time that the landlord has held the property increases propensity to participate in the future by a factor of about one per cent per year held. In other words (net of other effects in the model) the model predicts that a landlord who has owned a property for 30 years receives an additional 30 per cent probability of participating in the future vis-à-vis one who has owned for one year. Other effects are less dramatic.

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* Although a maximum likelihood estimation (MLE) logistic regression would be ideal, structural parameters under a ordinarly least squares dummy dependent regression are identical to the MLE model if the split on the dichotomy is not extreme.

The overall fit of the models presented in this report may be described as useful if not auspicious. We wish to note we are aware of methods for achieving considerably better fit. We have not produced these models due to either a lack of resources to develop the most elegant and robust models or a lack of a plausible theoretical argument to support the fitting of some alternate functional forms to the model.

Our investigations have shown that the linear, additive models being used in this model building process are not capturing the underlying functional form of many of the underlying relationships. For example, we have found that return on equity shows a clear convex curvilinear relationship with length of ownership (both recently purchased buildings and those held for longer terms) are associated with much lower rates of return than buildings held for median lengths of time). A linear correlation analysis detects a relationship but masks the strength of the association. We are aware of numerous additional non-linear functional forms in our data but we have neither the theoretical guidance nor the resources to test polynomial and other non-linear models. These are, however, important tasks for future analysis since there are significant improvements possible in modelling landlord intentions. Similarly, we have not exhaustively tested for higher order specification and interactive effects in the data despite the fact that we know these exist in many cases (e.g., the reversal of the intention/repair quality reduction relationship conditional upon previous participation). Log-linear models are recommended for further investigation of their problems.

We also ran several regressions to predict expected likelihood of (re)participation using the additional data available for the sub-sample of MMAH landlords but the results were disappointing. Previous participants and non-participants were grouped because of the limited number of cases. We found we could explain 15 per cent of the variance in the dependent variable with knowledge of the current mortgage debt, the physical condition of the building and whether building repair had improved or declined over the last year (as reported by landlords). The greater the mortgage debt ratio, the greater the likelihood of (re)participation. This may be due to the need to pass through purchase losses or refinancing costs or may reflect a more sophisticated operating style, among larger renters. The better the building condition and the greater the extent to which building repairs have improved since last year, the greater the expected likelihood of participation. Perhaps landlords better able to use the rent review system to their advantage are better able to maintain their buildings or those who pursue on a program of regular renovation and upgrading of their properties are more likely to apply for hearings.

7.6 Correlations with Future Intentions for the Property

The presentation of substantive findings in this chapter has concentrated on the attitudes towards rent review and the implications of various factors for participation or reparticipation in the rent review process. We also found several interesting associations between these attitudes and the future intentions of the landlord for the sample property. We feel we would be remiss in not presenting these relationships because they have important implications for the future of the private rental stock, as represented by our study population. We cannot conclude that there is a direct cause-and-effect relationship between perceptions of rent review and future intentions on the basis of these relationships, however, the presence of the relationships is suggestive and the survey methodology is non-reactive: viz., we do not feel landlords were systematically biasing their future intention responses to create a more negative impression of rent review.

First of all, perceptions of the relative fairness of government policies and regulations in their treatment of landlords are significantly associated with future plans for the sample property. Landlords who feel the government is unfair are more likely to intend to sell the property (27 per cent) or alter its market role (14 per cent) than those who feel their treatment by the government is fair (11 per cent and four per cent respectively, $p \angle .05$).

Perceptions of the fairness of the last RTC hearing attended are significantly associated with future intentions. Thirty-eight per cent of participants who feel the hearing was prejudiced are not planning to change the ownership or market role of the sample property over the next three years, compared to 60 per cent of those who perceived the hearing as fair (or at least not unfair). Almost one third of those who feel the hearing was biased are planning to alter the market role compared to six per cent of those who thought the hearing was fair ($p \angle .005$).

Non-participants who feel the Commission hearing would be unfair are more likely to be planning to sell the property (28 per cent versus nine per cent of those who feel it would be impartial, $p < .10$).

Those landlords who found the hearing process difficult are more likely to be planning to sell the property (36 per cent) or change its market role through luxury renovations, redevelopment or conversion (25 per cent) than those who found the process easy (28 per cent and eight per cent respectively, $p \angle .05$).

Participants who feel the last hearing had a negative impact on their relationship with their tenants are more likely to want to sell (36 per cent) or change the market role (29 per cent) than those who did not perceive this impact (27 per cent and eight per cent respectively, $p \angle .01$). Landlords who have not participated because they fear the hearing would have a negative impact on their tenant relations are more likely to intend no change (78 per cent) than landlords who were not constrained from participation by this reason (63 per cent, $p \angle .10$).

These relationships suggest rent regulation may be stimulating disinvestment in the private rental market. Those landlords who are aggrieved about their past experiences or potential experiences, are more likely to want to sell the property or alter its market role. This decision is not based on purely economic considerations - the perceived fairness of the operating environment is clearly an important consideration.

8.0 SUMMARY AND CONCLUDING REMARKS

8.1 Synopsis of Findings

It is easy to lose sight of the essential findings of this study in the welter of statistics in the previous five chapters. Before presenting our conclusions it would be useful to briefly summarise the principal findings upon which these are based.

Awareness and Knowledge

- awareness of the existence of the rent control and review legislation is very high. Only two per cent of our respondents appear unaware.

- overall levels of knowledge are good although substantial minorities exhibit inadequate understanding of particular areas. The most important areas in which better public education is required concern the correct level of the statutory increase, and the legality of increasing rents above the allowable maximum if the tenant agrees to the increase, if the tenant's lease has terminated or if the cash flow is negative.

- the levels of knowledge concerning the types of costs which can be legitimately passed on to tenants are somewhat lower. Perhaps the area of greatest interest, given the prominence of perceptions of the complexity or administrative burden of the process in the decision not to participate, is the low level of comprehension that the costs of professional assistance to the landlord for the review hearing can be legitimately passed on to tenants.

- knowledge levels appear to improve as a result of participation in the process but higher levels of knowledge are not reflected in more positive attitudes towards rent review. In fact, the more knowledgeable are more likely to have very negative attitudes. This suggests there are fundamental inequities or flaws perceived in the current system and that better compliance will not necessarily be obtained through an improved public education program.

- the source of information for non-participants is significantly associated with the level of knowledge: the average score is highest if the landlord relies on the RTC and lowest if the landlord relies on newspapers as the major source. Newspapers are the most frequently cited source among non-participants and any misconceptions propagated by this source may be retarding more widespread participation.

Ability to Participate

- almost half of previous participants would want outside professional assistance to prepare and present their next case at a rent review hearing and an even higher number (63 per cent) of non-participants desire such assistance should a hearing become necessary. These high levels suggest the process is, and is perceived to be, highly complex.

- in the support of this, we note the three most important reasons for non-participation in the past are the perceived paper work burden, the costs of hiring outside assistance and general intimidation by the process. These reasons are more important explanations of non-participation than is the simple lack of need for an increase in excess of six per cent. Landlords may be overstating their need for higher profits, but the findings still suggest the complexities and administrative burden of the process is retarding legitimate participation.

- the last rent review hearing attended was also perceived, by a large minority of participants, to be difficult and the Commission staff to be unhelpful.

- landlords with larger portfolios or higher unit rents are more likely to perceive the hearing as difficult but this may only reflect more organised tenant opposition, the complexities of the financial position, etc.. The very largest and smallest landlords would appear to have the greatest difficulties with the process, but for different reasons (e.g., organised tenant opposition and the complexities of financial reporting for large portfolios versus the lack of time, unsophisticated record keeping and the difficulty of calculating the value of sweat equity).

Attitudes and Perceptions

- significant minorities of landlords do not feel the Commission acted or would act in an impartial manner in a rent review hearing. This perception may have an impact on future reparticipation by past participants and may constrain participation by those who have never applied before. Non-participants who feel the RTC hearing would be unfair are more likely to be circumventing the legislation and illegally raising rents.

- while few tenants can be expected to welcome high rent increases, the net effect of participation on tenant relations (perhaps due to an adversarial atmosphere) was judged to be negative by 45 per cent of participating landlords.

- overall levels of satisfaction among participants are very low - 61 per cent are dissatisfied. Those with larger portfolios and higher rents are more dissatisfied. On the other hand, 25 per cent of participants are satisfied with their experience.

- better overall attitudes towards rent review among participants seem to be a function of positive previous experiences, current management strategies, lack of vulnerability to financing cost increases, low current rent levels and small portfolios.

- more positive attitudes among non-participants are associated with current management strategies, perceived ability to meet the documentation requirements and larger scale of operation.

Circumvention

- circumvention can take several forms: cheating, diminution of housing service and reducing repair levels.

- significant levels of circumvention of the letter of the rent control and review legislation are taking place. We estimate at least one third of landlords have circumvented the legislation at some point. Given the gaps we found in understanding the applicability of the legislation, some of this may be due to ignorance.

- there is no significant correlation between admitted circumvention and whether or not the landlord has participated in the past. In other words, adherence to or circumvention of the law have not been mutually exclusive options in the past, but alternative strategies.

- substantial minorities of landlords are reducing maintenance or repair levels. As building condition declines, deferred repairs or reduced repair quality are more likely.

Future Participation/Reparticipation

- the rent review client base is self perpetuating: previous participants perceive a greater likelihood of participation in the future compared to non-participants. Non-participants are more likely to anticipate future participation if they have been delaying repairs or reducing maintenance - or in other words building up a need for a large capital investment in the property. This strategy may have been influenced by negative perceptions of the impartiality of the Commission and the perceived difficulty of participation.

o repairs are being delayed for 29 per cent of total stock. Among past participants this practice is weakly but negatively correlated with perceived likelihood of reparticipation: i.e., successful landlords with well maintained properties intend to continue to pursue adequate, preventative repair strategies and this will require application for cost-pass-through. Other past participants have decided to use repair quality reductions as a substitute for participation perhaps due to an unhappy experience at their last hearing. Alternatively, landlords who are reducing repair levels may be leery of public exposure of these practices and so intend to avoid participation in the future. Delaying repairs is positively correlated with the likelihood of participation for landlords who have not yet applied for a rent review. We suspect that non-participants will be encouraged to participate if they have "stored up" repairs to a critical level. Non-participants who do not intend to participate in the future may include the relatively successful who do not need to apply for repair expenses and those who are relatively successful in circumventing rent review.

- factors predicting reparticipation are previous experiences, vulnerability to fluctuations in mortgage interest rates, ability to cut repair costs, attitudes toward circumvention and ability to cover cost increases within the absolute rent generated by a six per cent increase.

- factors associated with likely future participation by landlords who have not participated to date are need for capital investments in the property, attitudes to circumvention and knowledge about rent review.

8.2 Concluding Remarks

It is important to keep in mind that this study focuses on smaller landlords and therefore we cannot make inferences to the total population of landlords in Ontario. Moreover we have no linked data to allow us to discern the impacts of landlord attitudes and self-reported behaviour on the quality of the residential life as experienced by the tenants or the future behaviour of landlords. The study issues have been under intense public scrutiny over the last few years and the debate has been very polarised and inflamed by an absence of empirical data. While this study has helped redress some of the gaps in knowledge, it is captive to a certain extent to the willingness of our respondents to honestly reveal their attitudes and behaviour in very sensitive areas. With these caveats in mind, we present the conclusions we feel are justified within the limitations of our study scope.

We can draw conclusions in three general areas - the extent to which the existing administrative requirements of the rent review process cause especial problems, the likely impacts of participation on future behaviour, and the factors inhibiting more widespread participation.

The current administrative procedures are perceived or experienced as difficult by a majority of landlords - both participants and non-participants alike. Just under half of the former who feel they need professional assistance to make an application to the RTC, found the hearing difficult or the RTC staff not helpful. A majority of non-participants feel they would be unable to manage the process by themselves and a majority are discouraged from pursuing desired rent increases because they are intimidated by the process. While one can legitimately expect some exaggeration in this area, one cannot deny that perceived difficulties are inhibiting what may be legitimate participation. The need to rigorously explore the financial position of the landlord and the inadequacies of landlord financial records organised for income tax purposes may preclude a very accessible set of procedural requirements. On the other hand, a considerable number of landlords are currently dissatisfied with their investments in private rental residential real estate as a result of rent control and rent review. The more constraining the system, the more investment in this market will be discouraged - especially for the smaller landlord or the more marginal operator.

The system overall also appears to be working to maintain initial differences in the characteristics of participants and non-participants. Participants become more adept at participating and non-participants more skilled at circumvention. Ability to use the rent review process may not be synonymous with well managed and well maintained housing. The process may be rewarding financial and legal acumen rather than the provision of desired levels of housing services.

Tenants as well are affected by the excessive complexities of the current process. Excessive complexities will also demand professional assistance and the cost of this is passed on in the form of permanently higher rents.

Our findings indicate the smallest landlords and the largest scale operators may have a particular problem with the administrative burden of participation - albeit somewhat less for smaller landlords than we had expected. This may be a function of other variables not considered - the background of the particular landlord, their ability to deal with bureaucracy, the particular format of their financial records, etc.. The problems experienced by larger scale operators may be due to more organised and widespread tenant opposition rather than their ability to cope with the reporting and presentation requirements. It is important to remember that the greater the perceived or actual difficulty, the greater the likelihood of circumvention in one form or another. Circumvention may take several forms - perhaps the most benign being amiable negotiations with the tenant, trading off repairs or improvements for higher than allowable rents. It may also take the form of illegal increases, reduced building upkeep and deferred repairs.

Participation also seems to have a negative impact on both tenant relations and landlord attitudes alike. Just under half of landlords reported a deterioration in their relations with their tenants as a result of the last hearing. In a market characterised by scarcity of supply, concern for tenant relations may not be a major constraint on behaviour but to the extent that it exists, landlords who are fearful of a negative impact will be motivated to seek alternatives to rent review - either through reductions in the quality of the housing or housing services, or through direct negotiations with tenants.

The data also suggest participation increases knowledge levels but that this enhanced familiarity with the legislation and its applicability may be breeding a contempt for the legislation and government policies and regulations. Higher levels of knowledge are associated with more negative attitudes towards rent control and the majority of participants were dissatisfied with their last whole building review. These unintended and undesirable impacts of the process will encourage greater efforts to avoid reparticipation.

As for the issue of the extent to which landlords are not participating when they should - we have noted a substantial minority of landlords are evading the legislation or not applying when they feel they have a legitimate reason to do so. Evasion is not significantly associated with ignorance as to the true level of the statutory maximum. The 15 per cent of landlords who erroneously believe the statutory maximum increase is above or below six per cent are no more nor less likely to admit to increasing rents by more than six per cent since 1978 - assuming that they are equally predisposed to admit to this practice. Higher proportions of landlords are deluded about the circumstances under which the legislation applies and these landlords may be more likely to increase rents more frequently than once a year or by more than the allowable if they believe they are justified in so doing. The areas in which many landlords possess incorrect knowledge should be a high priority for RTC publicity and information efforts. As the level of knowledge may be influenced by the source of knowledge, newspapers should be a major target as a vehicle for disseminating the correct information or encouraging landlords to contact the RTC directly.

Ignorance of the cost-pass-through provisions may also be constraining legitimate participation and reducing profit margins. Attitudes among landlords towards rent review might be improved if more were aware of the types of costs that can be passed on to tenants.

Ignorance of the applicability of the legislation is not the only reason for circumvention - it can also occur as a result of direct negotiations with the tenant. Unfortunately we cannot quantify the relative importance of these two reasons. We only note that direct negotiations are extensive - just under half of landlords who have never participated in rent review claim that tenant agreement to the increase was an important factor in their decision not to participate and these landlords represent almost one quarter of the total population of landlords. Twenty per cent of participants (10 per cent of the total sample) attempted to negotiate the rent increase before finally applying for a rent review hearing. In other words, 35 per cent of our sampled landlords have tried to negotiate rents. From a policy perspective, the issue of the desirability of allowing landlords to negotiate rent increases (in excess of the maximum) directly with their tenants is very delicate. We cannot presume to offer advice on this issue as our study has not looked at the potential for abuse, the impact on the tenant from past negotiations, etc.. Given the costs of rent review to the landlord, tenant and taxpayer, however, the desirability and feasibility of permitting direct negotiations should be an urgent area for consideration by government decision-makers.

Circumvention can also take the form of reduced repair levels. The stock under scrutiny is likely in fair physical condition today (based on the findings of our earlier MMAH study which focused on much the same population) but we believe minimal repair levels will accelerate their physical deterioration. The results of this cost-cutting strategy may not be visible today, and this may encourage greater use of the strategy than if the impacts were immediately apparent to tenants and landlords. Thus the problem may be noticed only when it is too late, when gut renovations or demolition are the only viable options. The deferment of repairs may also be more costly in the long run as minor problems are allowed to escalate into more serious problems.

The loss of the stock - either physically or in terms of its current market role - will hurt lower income tenants captive to this lower cost stock. They will be forced to seek alternative accommodation and the scarcity of supply could exacerbate affordability problems. It is unlikely that the stock lost will be replaced with housing serving the same market segment.

We can offer little guidance on the issue of wilful disregard of the legislation by landlords who take advantage of vacant units or terminated leases to raise rents in excess of the statutory maximum. Our study does not allow us to easily quantify the number of landlords who wilfully engage in illegal behaviour. We can only reiterate that more landlords condone this behaviour or consider it to be common practice than admit to it. A rent registry, with appropriate provisions for redress, would appear to be a solution to this problem, although we can offer no indication as to its cost-effectiveness in mitigating these practices.

It is tempting to speculate on the implications of current practices in light of the publicly announced intention to reduce the statutory minimum and extend the coverage of rent control but there are dangers in speculations of this nature. They stem from the necessary assumption that the future will resemble the past and from the limitations of our study scope - to a specific population of landlords and expressed intentions and attitudes rather than actual, verified behaviour. This topic is of great import to a large number of Ontarians, however, and our findings are suggestive of possible outcomes.

Even allowing for respondent bias, the greatest obstacles to participation appear to be the procedural requirements of review hearings rather than the adequacy of a six per cent increase to cover rising operating costs. The reduction of the statutory maximum will likely increase both the rates of participation and circumvention as well as the disinclination to invest or continue in the private rental sector. This may sound paradoxical, but a minority of landlords currently do not participate because the statutory increase is sufficient to meet the annual increases in their operating costs. A four per cent statutory increase will reduce the number who are able to do this, and as a result more landlords will need to apply or constrain the annual rise in their operating costs. Landlords who are able to survive with a six per cent increase due to cost-cutting strategies will need to intensify these practices.

Without compensatory adjustments then, one could expect operating costs for the rent review system to increase if participation is more widespread. Obsolescence of the stock due to deferred repairs and lower levels of routine maintenance could accelerate if the incidence of these forms of circumvention increase. Landlords already display a great deal of frustration with the current system. The majority are business people who bought the property as a principal or supplementary income source, or for long term equity development or short term profits. They feel the imposition of rent controls are an unfair constraint on their profit margins. The proposed changes could result in greater numbers of landlords who feel inclined to seek alternative ways of maintaining or enhancing their profit margins, or altering the market role of their properties so as to avoid the embrace of the legislation.

A four per cent statutory maximum is expected to restrain annual rental increases but tenants could also be affected if the quality of their accommodation is reduced or rents increased as a result of the more widespread use of professional assistance. A strategy of deferring repairs to the material fabric of the stock may also result in higher eventual repair costs - which could be passed along as permanent rent increases.

Minor revisions to the proposed system may be ineffective in mitigating these potential outcomes. Decision-makers should be cognizant of the longer term implications, for investments in the private rental market, of saddling landlords with some of the costs of what may amount to a tacit social housing program.

Finally we remind the reader of the extreme variation in the characteristics, motivations and operating style of Ontario landlords. The heterogeneity will complicate the identification of a uniform policy and its application across this population in an equitable manner.

APPENDIX A

Survey Instrument Annotated with Descriptive Statistics

PROJECT TEAM

Project Director	Frank Graves
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MMAH ID 18.1%
TEELA ID 81.9% n=210

START TIME: |_|_|_|_|

BLDG. ID. NO. |_|_|_|

SECTION I: AWARENESS AND KNOWLEDGE

First we have some questions about your perceptions of government regulations concerning residential rental properties.

1. Do you think government policies and regulations treat landlords of rental residential buildings fairly? Please rate on a 1 to 7 scale where 1 means extremely fairly and 7 means extremely unfairly, and 4 means neither fairly nor unfairly.

0.5	1.4	4.3	7.2	19.1	23.0	44.5			
1	2	3	4	5	6	7	9	$\bar{X}$=5.9	
Extremely Fairly			Neither			Extremely Unfairly	DK/NR	s=1.3 n=209	GOVFAIR

2.a) Some provinces have a system of rent controls, others do not. Do you know if there is a system of rent control in Ontario?

		%		
Yes	1	97.6	n =208	CONTCNT
No	2	2.4	SKIP TO SECTION IV, Q-17	
DK/NA	9			

b) Under existing rent controls, by what percentage do you think a landlord is entitled to raise the rent before he or she is required to go to the Residential Tenancies Commission for approval? CODE DK/NR AS 99, NA as 98. PCNTRAIS

$\bar{X}$=6.2, s=1.6, n=194 Range: 4-20 |_|_| %

c) Is the approval of the Residential Tenancies Commission needed in the following situations if the increase will be over (% GIVEN IN Q.2.b)?

	YES %	NO %	DON'T READ NA DK/NR n	
The tenant agrees to the rent increase ..	70.3	29.7	195	TENAGREE
The tenant's lease is up	78.1	21.9	192	LEASEUP
Major repairs or improvements have been done to the building	85.6	14.4	194	MAJOREP
The building has less than 20 units	89.4	10.6	180	LESSTH20
The last rent increase did not cover the increase in operating costs	84.9	15.1	192	LASTINC
The cash flow is negative	80.7	19.3	187	CASHFLOW
The current unit rent is above $750	22.0	78.0	173	OVER750
The building is a new rental property ...	15.5	84.5	174	NEWRENT
The rental unit was built or first rented recently	22.2	77.8	171	RECRENT
The rental unit is a rooming house	36.0	64.0	114	ROOMHSE
The rental unit is a private home or town house	52.1	47.9	144	PRIVHOME

5. In what year did you last apply? CODE NA 98 AND DK/NR 99. LASTAPPL

Year [1][9][ ][ ] $\overline{X}$=1982.3, s=2.0, n=95 Range: 1974-85

6. On this last occasion, did you first try to negotiate the rent increase with the tenant(s) without involving the Residential Tenancies Commission?

	%		
Yes	20.0		
No	80.0	n=95	NEGTNTS
NA			
DK/NR			

7.a) What percentage increase were you seeking? (ROUND TO NEAREST WHOLE NUMBER IF A FRACTION.) CODE NA 998 AND DK/NR 999.

[ ][ ][ ] % $\overline{X}$=17.8, s=13.8, n=84 Range: 8-122 PCNTSEEK

b) What percentage was approved? CODE NA 998 AND DK/NR 999.

[ ][ ][ ] % $\overline{X}$=11.9, s=7.1, n=85 Range: 0-40 PCNTAPPR

8. Some landlords apply because they have just purchased the building and need to recover from a financial loss. Others need to recover high refinancing costs or operating costs. Rate the importance of the following factors in your decision to apply this last time. Please rate each factor on a 1 to 7 scale with 1 being extremely important, 7 being extremely unimportant and 4 being neither important nor unimportant.

	Extremely Important			Neither			Extremely Unimportant		
	1	2	3	4	5	6	7		
Financial loss from purchase	28.6	6.6	7.7	9.9	2.2	3.3	41.8	$\overline{X}$=4.3 s=2.6 n=91	PURLOSS
Higher refinancing costs	46.9	9.4	6.3	7.3	3.1	3.1	24.0	$\overline{X}$=3.2 s=2.5 n=96	HIGHCOST
Higher operating costs (e.g., heating, insurance, maintenance, management, etc.)	59.8	15.5	11.3	3.1	1.0	3.1	6.2	$\overline{X}$=2.0 s=1.7 n=97	OPCOSTS

d) Under the Ontario rent review system, what costs can be legitimately passed on to tenants through rents higher than 6%? **(CODE UNPROMPTED RESPONSES, THEN ASK REMAINING ITEMS.)**

	WITHOUT PROMPT					WITH PROMPT ONLY READ ITEMS NOT ANSWERED WITHOUT PROMPT				
	YES %	NO %	NA	DON'T READ DK/NR n		YES %	NO %	NA	DK/NR n	
Negative cash flow specifically to purchase the building	100.0	0.0		22	NEGFLOW	53.4	46.6		161	NEGFLOW1
Expenditures for major repairs or replacements	98.9	1.1		87	MAJREPS	66.7	33.3		108	MAJREPS1
Increased building management costs	98.0	2.0		50	MANCOST	54.4	45.6		136	MANCOST1
Increased operating costs	98.8	1.2		86	OPERCOST	62.3	37.7		106	OPERCST1
The cost of hiring professionals to assist in the rent review process	100.0	0.0		1	PROFCOST	47.3	52.7		165	PROFCST1
Losses due to vacancies and bad debts	83.3	16.7		6	VACLOSS	35.3	64.7		167	VACLOSS1
Other, (specify) ______ ______________________ ...				0	OTH1					

3. Have you ever applied to the Residential Tenancies Commission to have a whole building approved for a rent increase?

		%	
Yes	1	48.3	
No	2	51.7	SKIP TO SECTION III, Q.12.a)
NA	8		
DK/NR	9		

n=201

EVERAPPL

SECTION II: PREVIOUS PARTICIPATION

We would now like to ask you some questions about your experience with rent review.

4. How many times have you (or a member of your organisation) applied for approval of a rent increase for one of your properties? CODE NA 998 AND DK/NR 999. NOAPPLS

Number of Times |_|_|_| $\overline{X}$=3.1, s=4.5, n=97 Range: 1-30

8. (CONTINUED)

	1 Extremely Important	2	3	4 Neither	5	6	7 Extremely Unimportant		
Revenue loss from bad debts or vacancies.......	15.6	2.1	7.3	17.7	4.2	11.5	41.7	$\overline{X}$=4.9 s=2.2 n=96	REVLOSS
Recovery of capital expenditures for major repairs or replacements....	56.3	11.5	6.3	8.3	5.2	2.1	10.4	$\overline{X}$=2.4 s=2.1 n=96	RECREP
Recovery of capital expenditures for major additions or improvements....	37.6	10.8	11.8	6.5	5.4	3.2	24.7	$\overline{X}$=3.4 s=2.5 n=93	RECADD
Other reasons, specify -- negative cash flow...........	100.0	0.0	0.0	0.0	0.0	0.0	0.0	$\overline{X}$=1.0 s=0.0 n=5	NEGCASH

9.a) Did you use a lawyer or accountant or some other professional help to prepare or present your case?

		%	
Yes	1	45.4	
No	2	54.6 n = 97 SKIP TO Q.9.d	PROFHELP
NA	8		
DK/NR	9		

9.b) What kind of assistance did you have? READ LIST. CIRCLE ALL MENTIONED.

	% Yes	% No	n	
Lawyer	38.6	61.4	44	USELAW
Rent Review Consultant ..	43.2	56.8	44	USECNSLT
Accountant	32.6	67.4	43	USEACCNT
Other (specify) ________				
Real Estate Company	100.0	0.0	1	REALEST

DO NOT READ
NA ....
DK/NR ....

c) How much did this outside assistance cost you this last time? CODE NA 99998 AND DK/NR 99999. COSTPRO

$ |_|_|_|_|_|_| .00 $\overline{X}$=$1218.24, s=1432.50, n=34 Range: 0-6000

d) If you were to be involved in a rent review again, would you prefer to hire outside assistance?

Yes 1	48.9		
No 2	51.1	n = 94	PROFPREF
NA 8			
DK/NR 9	SKIP TO Q.10.a		

e) Why Not? DO NOT READ. CIRCLE ALL THAT APPLY.

	%		
Not necessary	46.9		NOTNEC
Too expensive	32.7		TOOEXP
Would not know who to go to	2.0	n=49	WHOTOGO
They aren't helpful/don't make any difference	34.7		NOHELP
Other (specify) ____________________ ..	6.1		OTHER
NA			
DK/NR			

10a) From your experience would you say the Commission handled the hearing in a fair manner? Please rate on a 1 to 7 scale where 1 is extremely fair and 7 is extremely unfair and 4 is neither fair nor unfair.

14.3	14.3	11.0	16.5	8.8	13.2	22.0			$\overline{X}$=4.2	
1	2	3	4	5	6	7	8	9	s=2.1	COMMFAIR
Extremely Fair			Neither Fair Nor UnFair			Extremely Unfair	NA	DK/NR	n=91	

b) Would you take part in the hearing process again?

	%		
Yes	64.6		REPARTIC
No	35.4	n=96	
NA			
DK/NR			

c) What was your impression of the hearing process? Would you say that it was easy or difficult for you? Please rate on a 1 to 7 scale where 1 means extremely easy and 7 means extremely difficult and 4 means neither easy nor difficult.

6.8	8.0	13.6	18.2	14.8	19.3	19.3			$\bar{X}$=4.6	
1	2	3	4	5	6	7	8	9	s=1.8	HEARDIFF
Extremely Easy			Neither Easy Nor Difficult			Extremely Difficult	NA	DK/NR	n=88	

d) IF DIFFICULT (5 to 7) how so?

Process biased	38.1%	
Time consuming	33.3	
Process complicated	14.3	HOWDIFF
Other	14.3	
	n=42	

e) Is it your impression that the people at the Commission were helpful or unhelpful to you? Please rate on a 1 to 7 scale where 1 means extremely helpful and 7 extremely unhelpful.

12.1	11.0	22.0	24.2	9.9	7.7	13.2			$\bar{X}$=3.8	
1	2	3	4	5	6	7	8	9	s=1.8	COMMHELP
Extremely Helpful			Neutral			Extremely Unhelpful	NA	DK/NR	n=91	

f) Did the fact you went to rent review have any impact on your relations with your tenants? Please rate on a 1 to 7 scale where 1 means extremely positive impact, 7 means extremely negative and 4 is no impact at all.

2.1	4.3	2.1	46.8	11.7	16.0	17.0			$\bar{X}$=4.8	
1	2	3	4	5	6	7	8	9	s=1.4	TNTIMPCT
Extremely Positive			No Impact			Extremely Negative	NA	DK/NR	n=94	

g) In general, how satisfied were you with the overall experience? Please rate on the same 1 to 7 scale with 1 meaning extremely satisfied and 7 meaning extremely dissatisfied.

3.2	9.6	11.7	14.9	11.7	11.7	37.2			$\overline{X}$=5.1	OVERSAT
1	2	3	4	5	6	7	8	9	s=1.9	
							NA	DK/NR	n=94	
Extremely Satisfied			Neutral			Totally Dissatisfied				

11a) How would you rate the likelihood of you requesting a rent review hearing in the next 5 years. Please rate on a 1 to 7 scale where 1 is extremely likely and 7 is extremely unlikely.

36.6	8.6	11.8	5.4	4.3	9.7	23.7				RNTREV5
									$\overline{X}$=3.6	
1	2	3	4	5	6	7	8	9	s=2.5	
							NA	DK/NR	n=93	
Extremely Likely						Extremely Unlikely				

SKIP TO SECTION IV, Q.17

b) Why do you not expect to go to rent review - is this because it does not apply to your properties, you don't need the extra work, your cost increases are below what you can raise rents or some other reason? (DON'T READ BUT PROBE.)

	%	n=34	
Impact on tenant relations	5.9		IMPTNTS
Extra work of application and hearing	32.4		EXTRWRK
Cost increases below (allowable) rent increases	11.8		COSTBEL
Not under rent control	0.0		NOCNTL
Time delay in waiting for approval	23.5		TIMEDEL
Intimidated	2.9		INTIMIDA
Other, specify waste of time	38.2		OTH
other	14.7		OTH
NA			
DK/NR			

(ALL PARTICIPANTS IN RENT REVIEW SKIP TO SECTION IV, QUESTION 17)

SECTION III: SOURCE OF INFORMATION

ONLY FOR NON-PARTICIPANTS AWARE OF RENT CONTROL

We'd now like to ask you about your sources of information about rent review.

12a) What was your main source of information about the legislation and process? (CIRCLE ONLY ONE.)

	%	
Residential Tenancies Commission	31.3	
Other landlords	4.0	
Newspapers	42.4	INFOSOUR
Tenants or tenants associations	1.0	
Accountant or lawyer	8.1	
Newsletters, specify ____________________ ________________________________...	0.0	
Landlord associations, specify ________________________________..	0.0	
Other, specify ________________________..	13.1	
NA		n=99
DK/NR		

12b) How adequate do you think this information source was - in other words, did it supply enough accurate information for your needs? Please rate on a 1 to 7 scale where 1 is totally adequate and 7 is completely inadequate and 4 is neither adequate nor inadequate.

22.1	14.7	21.1	21.1	11.6	2.1	7.4			$\overline{X}$ = 3.2	
1	2	3	4	5	6	7	8	9	s = 1.8	
Totally Adequate						Completely Inadequate	NA	DK/NR	n = 95	INFOQUAL

c) IF INADEQUATE (5 to 7), why is this? ____________________

____

____

____

13. There are many reasons why you might not have applied for a rent review hearing. For example, rent control may not apply to you or you may have been unwilling to bother. To what extent were the following reasons a factor in your decision? Please rate each factor on a 1 to 7 scale with 1 meaning extremely important, 7 meaning extremely unimportant and 4 meaning neither important nor unimportant.

	Extremely Important			Neither			Extremely Unimportant		
	1	2	3	4	5	6	7		
My properties are not rent controlled	5.8	2.3	0.0	10.5	3.5	0.0	77.9	$\bar{X}$=6.2 s=1.8 n=86	NOTCNTLI
I underestimated the actual increase in my costs	15.9	2.3	8.0	17.0	10.2	6.8	39.8	$\bar{X}$=4.8 s=2.2 n=88	UNDERESI
I was unwilling to cope with the paper work	43.5	10.9	7.6	9.8	4.3	2.2	21.7	$\bar{X}$=3.1 s=2.4 n=92	PAPERWK
My tenants would have objected	14.1	6.5	6.5	13.0	1.1	8.7	50.0	$\bar{X}$=5.1 s=2.3 n=92	TNTSOBJE
My cost increases were less than or equal to the maximum allowable	20.9	5.8	4.7	20.9	11.6	7.0	29.1	$\bar{X}$=4.3 s=2.3 n=86	LESSMAX
I felt intimidated by the process	38.2	18.0	5.6	5.6	0.0	2.2	30.3	$\bar{X}$=3.4 s=2.6 n=89	PROCINT
The cost of hiring assistance for the hearing was too high	45.9	10.6	4.7	7.1	2.4	3.5	25.9	$\bar{X}$=3.2 s=2.6 n=85	CSTTOOH1
My tenants agreed to the increase	29.2	7.9	9.0	14.6	2.2	3.4	33.7	$\bar{X}$=4.0 s=2.5 n=89	TNTSAGRE
Were there other reasons? Please specify	96.6	0.0	0.0	3.4	0.0	0.0	0.0	$\bar{X}$=1.1 s=0.6 n=29	OTHRAT

Process biased (20.7%)
Maximum taken (20.7%)
Others (58.6%) n=29

14. If you were to go to rent review, do you think this would produce a positive or negative impact on your relations with your tenants? Please rate on a 1 to 7 scale where 1 means extremely positive impact, 7 means extremely negative impact and 4 means no impact at all.

3.2	3.2	3.2	31.2	16.1	16.1	26.9				
1	2	3	4	5	6	7	8	9	$\overline{X}$=5.1	
							NA	DK/NR	s=1.6	TNTIMPC2
Extremely Positive			No Impact			Extremely Negative			n=93	

15a) How adequate do you think your financial records would be for the purposes of a rent review hearing? Please rate on a 1 to 7 scale where 1 means completely adequate and 7 means totally inadequate.

60.0	18.9	6.7	7.8	2.2	0.0	4.4				
1	2	3	4	5	6	7	8	9	$\overline{X}$=1.9	RECSADEQ
							NA	DK/NR	s=1.5	
Completely Adequate						Totally Inadequate			n=90	

SKIP TO Q. 15.c

b) IF INADEQUATE (5 to 7) In what way are they inadequate? WHYINAD2

Not sophisticated enough	75.0%	
No records kept	25.0%	n=4

15c) If you had to be involved in a rent review hearing before the Residential Tenancies Commission, do you think you would hire outside assistance such as a rent review consultant, a lawyer or an accountant?

	%		
Yes	62.5		
No	37.5	n=96	HIREPROF
NA			
DK/NR			

d) In your opinion, how fair do you think the hearing would be? Please rate on a 1 to 7 scale with one being extremely fair, 7 being extremely unfair and 4 being neither fair nor unfair.

10.1	10.1	15.2	24.1	17.7	11.4	11.4				
1	2	3	4	5	6	7	8	9	$\overline{X}$=4.1	
							NA	DK/NR	s=1.8	COMFAIR2
Extremely Fair			Neither Fair Nor Unfair			Extremely Unfair			n=79	

16. How would you rate the likelihood of you requesting a rent review hearing in the next 5 years. Please rate on a 1 to 7 scale where 1 is extremely likely and 7 is extremely unlikely. RNTREV5B

17.9	10.5	2.1	11.6	5.3	10.5	42.1			
1	2	3	4	5	6	7	8	9	$\bar{X}$=4.8
Extremely Likely						Extremely Unlikely	NA	DK/NR	s=2.4
									n=95

SECTION IV: CURRENT MANAGEMENT STATEGY

Now we have a few questions about your current management strategy for the property that we asked if you still own. (REFER TO PROPERTY ADDRESS IF NECESSARY.)

17. Here is a list of reasons which may currently underlie your decisions about the ongoing management of this building. Would you please rate their importance to you on a 1 to 7 scale with 1 being extremely important and 7 being extremely unimportant. READ LIST.

	Extremely Important			Neither		Extremely Unimportant					
	1	2	3	4	5	6	7	$\bar{X}$	s	n	
Obtain high annual income	34.0	8.0	17.5	17.0	11.0	5.0	7.5	3.1	1.9	200	HIGHINC
Increase long term equity	41.5	24.9	11.9	11.4	3.6	0.5	6.2	2.4	1.7	193	INCEQTY
Use building for financial leverage	14.1	7.3	12.0	12.6	11.0	12.6	30.4	4.6	2.2	191	FINLEV
Contain or reduce rising operating costs	53.3	14.7	11.7	9.6	2.0	2.5	6.1	2.2	1.8	197	REDCOSTS
Ensure steady long term earnings	51.5	17.2	15.2	7.1	3.5	3.5	2.0	2.1	1.5	198	ENSEARN
Reduce or minimise tenant turnover	40.2	17.6	10.6	11.6	4.0	5.0	11.1	2.8	2.1	199	TURNOVER
Maintain building for resale	34.5	14.0	12.5	11.5	6.5	6.5	14.5	3.2	2.2	200	RESALE

18. Some landlords are cutting costs rather than going to the Residential Tenancies Commission. Can you tell me to what extent you are taking the following steps to reduce the costs for this building. Answer on a 1 to 7 scale with 1 meaning you have taken the step to a very great extent and 7 meaning you have not taken the step at all.

	To A Great Extent						Not At All		
	1	2	3	4	5	6	7		
Increasing the energy efficiency of the building	41.8	16.8	15.9	7.7	3.8	1.4	12.5	X̄=2.7 s=2.0 n=208	INCENER
Reducing the number of maintenance staff or the quality of janitorial maintenance	10.0	7.7	7.7	9.6	5.3	1.0	58.9	X̄=5.3 s=2.2 n=209	REDSTAFF
Delaying major repairs or replacements or reducing the quality of the repair work	14.4	6.2	8.6	11.5	8.6	4.8	45.9	X̄=4.9 s=2.3 n=209	DELREPS

19a) Is this building in need of any repairs? (Do not include desirable remodelling, energy improvements or additions.) SELECT ONE RESPONSE.

NEEDREPS
n=207

YES, MAJOR REPAIRS ARE NEEDED (such as replacing the roof or furnace or to correct, for example, corroded pipes, damaged electrical wiring, sagging floors, bulging walls, damp walls and ceilings, crumbling foundation, rotting porches and steps) 26.6

YES, MINOR REPAIRS ARE NEEDED (to correct, for example, small cracks in interior walls and ceilings, broken light fixtures and switches, leaking sink, cracked or broken window panes, some missing shingles or siding, some peeling paint, defective steps, loose or missing floor tiles) 24.2

NO, ONLY REGULAR MAINTENANCE IS NEEDED (for example, painting, leaking faucets, clogged gutters or eavestrough) 49.3

DO NOT READ

DK/NR ....

20. Do you personally do any of the following tasks in connection with this property? (READ LIST.)

	YES	NO	n	
Janitorial maintenance?	48.8	51.2	209	JANMAINT
Emergency repairs?	57.9	42.1	209	EMEREPS
Non-emergency repairs?	58.1	41.9	210	NONEMREP
General maintenance?	55.7	44.3	210	GENMAINT
Are you the superintendent of the building?	36.2	63.8	210	SUPER

21. The economic situation in the private rental market may be encouraging landlords to sell their properties, renovate to luxury standards or decrease maintenance and repairs for other reasons. What are your plans for this building in the next three years? (PROBE FOR EXACT PLAN IF CHANGE IS PLANNED.)

	Yes	No	n	
No change	62.6	37.4	198	NOCHNGE
Sell	24.7	75.3	198	PLNTSELL
Demolish and build residential housing	1.0	99.0	198	BLDRES
Demolish for a non-residential use	1.0	99.0	198	BLDNORES
Convert building to a form of ownership tenure	0.5	99.5	198	OWNTEN
Convert building to non-residential use	0.0	100.0	198	CONNORES
Undertake major renovations to bring the building to luxury standards	7.6	92.4	198	MAJLUX
Other	2.5	97.5	198	OTHCHAN
DK/NR				

DO NOT READ

SECTION V: BUILDING AND OWNER CHARACTERISTICS

We have a few questions about yourself and your property for statistical reasons.

22. What is the legal form of ownership for this property? (READ LIST IF NECESSARY.)

TYPFOWN n=208

Individual ownership	34.6
Husband/wife co-owners	31.3
Partnership with other relatives	13.5
Other partnership	3.8
Corporation	13.0
Other, specify Limited Company	3.8
DO NOT READ DK/NR	

23a) Approximately when did you buy the building? If you constructed the building approximately when was it completed?

YRBGHT

Bought In | 1 | 9 | | |
x=1973.6
s=9.5 n=182 Range: 1927-1984

OR

YRBUILT

Built In | 1 | 9 | | |
X̄=1959.1
s=9.1
n=27
Range: 1939-84

IF RESPONDENT BUILT BUILDING SKIP TO Q.24.a.

b) Approximately how old is the building? CODE NA 998 AND DK/NR 999.

Number of Years | | | |
X̄=38.9
s=22.4
n=177
Range: 7-100

BLDAGE

24a) What is the most common size of unit in this building?

n=205 UNITSIZE

Bachelor	6.8
One Bedroom	35.1
Two Bedroom	54.1
Three Bedroom	3.9
DK/NR	

b) What is the typical rent charged for this size of unit? CODE DK/NR 999.

UNITRENT

|_|_|_|_|

$\overline{X}$=$357.14
s=97.62
n=196
Range: 137-750

25. How many other rental residential revenue-generating buildings (excluding this one) do you own?

(a) Number of buildings. CODE DK/NR 999.

NOBLDGS

|_|_|_|_|

$\overline{X}$=3.6
s=8.0
n=194
Range: 0-65

(b) How many units in total in these buildings?

NOUNITS

|_|_|_|_|

$\overline{X}$=119.1
s=470.8
n=193
Range: 0-4500

26. Approximately what percentage of your total investments are in residential rental real estate? CODE DK/NR 999.

PRCTINV

|_|_|_| %

$\overline{X}$=71.1
s=29.1
n=173
Range: 5-100

SECTION VI: ATTITUDES TO RENT REVIEW

27.a) Since 1978 have you ever increased your rents by less than the 6% a year allowed by the guidelines that have been in effect since that time?

	n=204	LESS6INC
Yes	36.3	
No	63.7	SKIP TO Q.28.a
DK/NR		

b) Why was this? ______________________

____

____

28a) Often landlords will increase rents by more than six per cent without applying for rent review perhaps because they have had to refinance at a higher interest rate, they have repaired or improved the building, the unit is vacant, the tenants agree to the rent increase or there is some other type of similar circumstance. In these instances there seems to be little point in applying for government approval of the rent increase. How strongly do you agree or disagree with this point of view? Please rate your response on a 1 to 7 scale with 1 meaning strongly agree, 7 meaning you strongly disagree and 4 being neutral.

MORE6AGR

37.6	7.7	8.8	12.4	2.6	4.6	26.3		$\bar{X}=3.5$
1	2	3	4	5	6	7	9	s=2.5
Strongly Agree			Neutral			Strongly Disagree	DK/NR	n=194

b) How common do you feel the practice of avoiding rent review is among other landlords you're familiar with? Please answer using a 1 to 7 scale with one meaning extremely rare and 7 meaning extremely common.

HOWCOMMO

14.6	7.7	9.2	22.3	12.3	11.5	22.3		$\bar{X}=4.3$
1	2	3	4	5	6	7	9	s=2.1
Extremely Rare			Neutral			Extremely Common	DK/NR	n=130

c) Since 1978 have you ever increased your rents by more than six per cent in one year without government approval?

n=201 MORE6INC

Yes 17.4

No .... 82.6 SKIP TO Q.29
DK/NR ....

d) Have you done this in the last year?

n=36 LASTYEAR

Yes 36.1
No 63.9
NA ....
DK/NR ....

29. In some cases the cost of applying to the Commission outweighs the benefits. What would be the minimum percentage rent increase you would need before it would be worth your while to apply for a rent review hearing? CODE DK/NR 999.

MINPRCNT

|__|__|__| % $\bar{X}$=11.3
s=4.2
n=143
Range: 6-30

SECTION VII: FINANCIAL POSITION

We have a few final questions about the building financing. We realise that these are sensitive questions, but we are only looking for ballpark figures or percentages. We want to reassure you that your answers will remain confidential. Our interest is in the extent of any financial problems such as a low return on investment.

30. Landlords differ on the way they keep their financial records. Some use an accountant to prepare detailed financial statements and others build a record of receipts and invoices. There is no right or wrong way. The next few questions are about your financial record keeping habits.

	YES	NO	n	
a) Do you use an accountant to do your annual tax returns?	78.7	21.3	207	USEACC
b) Are your building financial records separate from your personal financial records?	88.8	11.2	206	SEPRECS
c) Do you maintain separate financial records for each rental property?	86.5	13.5	192	RNTLRECS

31a) What did this property cost when you bought it, to the nearest thousand dollars? Include both equity and mortgage debt. CODE DK/NR 99999.

PURCHCST

Dollars $|__|__|__|__|__|0|0|0|

$\bar{X}=\$186,785$
s=136,072
n=158
Range: 13,000 to 600,000

b) Approximately what percentage of this cost was your mortgage loan? CODE DK/NR 999.

PCNTMORT

|__|__|__| %

$\bar{X}=65.9$
s=25.8
n=160
Range: 0-100

32a) What is your estimate of the current market value of this property, again rounded to the nearest thousand? CODE DK/NR 99999.

MRKTVAL

Dollars $|__|__|__|__|__|0|0|0|

$\bar{X}=\$353,062$
s=297,254
n=160
Range: 25,000-2,500,000

b) Approximately what percentage of this current market value is your mortgage debt today? CODE DK/NR 999.

MORTNOW

|__|__|__| %

$\bar{X}=33.0$
s=30.5
n=143
Range: 0-100

33a) Approximately what was your total pre-tax net rental revenue from this building in 1984? Please round to the nearest hundred dollars. CODE DK/NR 9999.

RENTREV

Dollars $|__|__|__|__|0|0|

$\bar{X}=\$20,150$
s=35,797
n=125

b) Did you use the maximum allowable Capital Cost Allowance for this building in 1984?

Yes	59.9	CCA84
No	40.1	n=142
DK		
NR		

c) Approximately what percentage of your total 1984 income was the 1984 net rental income from this building? CODE DK/NR 999.

PCNINET

|__|__|__| %

$\overline{X}$=18.3
s=27.8
n=114
Range: 0-100

34. Are there any concluding comments or views you would like to offer?

	FNLCMNT1 First Comment	FNLCMNT2 Second Comment	FNLCMNT3 Third Comment
Remove Controls	40.1	16.7	14.3
Unfair	17.9	10.8	5.7
Minimum Return	21.0	35.3	37.1
Poorer Maintenance	3.1	12.7	5.7
Political	6.2	7.8	17.1
Tenant Subsidy	1.9	9.8	11.4
Eviction difficult	3.7	4.9	8.6
Others	6.2	2.0	0.0
	n=162	n=102	n=35

Total units in the building (from the TEELA listing or the MMAH interviews)

$\overline{X}$=12.9
s= 8.4
n=210
Range: 3-46

TOTUNIT

These are all the questions we have. Thank you very much for your time and cooperation.

FINISH TIME |__|__|__|__|

City Identification

	%
Toronto	42.4
Ottawa	24.3
Hamilton	11.9
Niagara	4.3
Durham	3.8
Halton	2.4
Peel	2.4
Middlesex	7.1
North York	1.4

n=210

APPENDIX B

Field Report for the Survey of Landlords

APPENDIX B
FIELD REPORT FOR THE SURVEY OF LANDLORDS

To collect the necessary data for this study we conducted telephone interviews of a random sample of landlords of smaller rental residential properties in nine southern Ontario regional municipalities (the regional municipalities of Metro Toronto, Ottawa/Hull, Hamilton/Wentworth, Peel, Halton, Durham and Niagara/York, and Middlesex County)*. In order to make use of an existing 1984 data base on landlords in Ottawa, Hamilton and Toronto, the landlords involved in this earlier study were also recontacted. This latter group is referred to as the "MMAH" (Ministry of Municipal Affairs and Housing) group, the former are referred to as "TEELA" landlords because the sampling frame used was the TEELA market listings. This appendix documents the preparation, conduct and results of the survey field work. We begin with a discussion of the sample design and follow with a report on the pretest and interviewer training. We then document the survey conduct and results.

1.0 SAMPLING STRATEGY

We hoped to complete interviews with 200 landlords: 150 of these were to be selected from the TEELA listings and 50 from the 74 landlords who had participated in the 1984 MMAH survey and who had buildings with 40 units or less.

A random start, interval sampling technique was used to select landlords from the (approximately) 11,500 TEELA entries. This technique ensured a sample size proportionate to municipality size. We selected a total of five samples, each consisting of approximately 150 cases. We selected this many because we anticipated problems in tracking down telephone numbers of TEELA landlords and because we expected a high refusal rate.

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* These municipalities and county cover the following cities, towns and townships: East York, Etobicoke, North York, Scarborough, Toronto, York, Cumberland, Gloucester, Kanata, Nepean, Ottawa, Rockcliffe Park, Vanier, Lancaster, Dundas, Flamborough, Glenbrook, Hamilton, Stoney Creek, Burlington, Halton Hills, Milton, Oakville, Brampton, Caledon, Mississauga, Ajax, Brock, Newcastle, Oshawa, Pickering, Uxbridge, Whitby, Fort Erie, Grimsby, Lincoln, Niagara Falls, Niagara-on-the-Lake, Pelham, Port Colborne, St. Catharines, Thorold, Welland, Aurora, East Gwillimbury, Markham, Newmarket, Richmond Hill, Vaughan and London.

The original MMAH sample had been selected by a multi-stage, cluster sampling method. First, a random sample of census tracts in three census metropolitan areas was selected and then enumeration areas within these tracts were selected by a random procedure. All eligible buildings within these enumeration areas (i.e., more than three units, less than five storeys, no non-residential use of the property, and no recent renovations to luxury standards) were inventoried by means of a visual inspection. This became the sampling frame. Several samples had to be drawn in order to collect linked building condition, landlord and tenant data for 100 buildings. The final MMAH sample included 77 landlords (23 landlords owned more than one sampled property). Not all were eligible for this survey - three had buildings with more than 40 units. We attempted to interview all eligible MMAH landlords.

2.0 PRETEST

Two survey instruments were designed - one for the MMAH group and one for the TEELA sample. The TEELA instrument was slightly longer as some of the questions had already been asked of the MMAH group during the 1984 MMAH survey. Before entering the field, the two survey instruments were reviewed with the client and pretested in order to ensure the questions were clear and their sequence and response burden appropriate before committing field team resources. The survey instruments were tested under real field conditions (i.e., by telephone) with landlords in Toronto, Ottawa and Hamilton.

We anticipated the respondent group to be hostile, especially in light of an Ontario government announcement (just prior to the survey) that the statutory maximum would be lowered from six to four per cent. This placed rent review issues in the spotlight and was expected to complicate the successful completion of the survey. In addition to the examination of questionnaire clarity, response burden and flow, the pretest period paid special attention to respondent availability, hostility and the response rate. These five areas were monitored for their implications for the questionnaire design and survey procedures.

The pretest was to consist of 10 interviews: five with TEELA landlords and five with MMAH landlords. The quota of MMAH landlords was reached. Difficulties in reaching and completing interviews with TEELA landlords in the two day pretest period limited us to three completed and one partial interview.

Instrument clarity, as indicated by landlord comprehension, was high. Only minor revisions to wording were required. The length of the interview presented a problem as landlords wanted to talk and techniques to limit responses were ineffective. To facilitate the successful completion of the interview we had to allow respondents the time to "blow off steam". This became a crucial aspect of the interview. The pretest revealed that the average interview (originally expected to take 15 minutes) was 30 to 35 minutes in length and could not be shortened without major deletions.

The flow of the questions was partially disrupted by unprovoked respondent comments. Despite the disruptions the sequence was considered appropriate as respondents were able to follow question content and direction. No changes were necessary to the order of questions or to the skip logic.

The special attention paid to respondent availability and the response rate revealed other problems. We noticed a high attrition rate for TEELA landlords. Many telephone numbers were not listed. When numbers were available, respondents were generally reluctant to participate in a structured telephone interview concerning rent review. Of the 40 TEELA landlords sampled for the pretest, 21 had unpublished telephone numbers and three had numbers no longer in service. The remaining 16 landlords were contacted over a two day period. The results were five refusals, eight unconfirmed (callbacks needed) and three completed interviews.

The MMAH landlords on the other hand were familiar with Ekos from the earlier survey and usually both work and home telephone numbers were available. A total of 12 MMAH landlords were approached of which eight were successfully contacted. The results were: one refusal, two unconfirmed and five completed interviews.

The pretest revealed that respondent availability among the TEELA sample was going to be problematic. The direct refusal rate was not abnormal at 25 per cent. The combined MMAH and TEELA response rate however was low at 33.3 per cent due largely to the high number of unconfirmed landlords who required additional callbacks. The high percentage (41.6) who delayed or "dodged" the interview was perplexing. The offer of a cash incentive to reluctant or hostile landlords did not help improve the level of participation as was anticipated. (It was offered to eight respondents and was accepted once.)

In summary, the pretest verified the instruments under real conditions. It indicated potential problem areas with the instrument and interview procedures. Modifications to the instruments and new procedures were developed to help ensure high quality data.

3.0 INTERVIEWER TRAINING

Following the pretest, Ekos assembled an experienced team of five interviewers. Interviewers were selected based on past landlord interview experience and language fluency. As it turned out, all interviews were conducted in English, however, three team members spoke French, and two spoke Greek and Portugese respectively.

The training lasted for 1.5 days and included sessions on rent review legislation, issues and concepts involved in instrument, sampling, procedures to complete the instrument and a refresher course in telephone survey techniques. The pretest demonstrated the need to handle landlords with "kid gloves". Discussion of the approaches to be taken was extensive. The most successful method in the pretest was to be overly polite, appear surprised at landlord comments and to display concern for their predicament. This represented a slight deviation from a formal business-like approach to a more humanistic approach. We feel it helped make the interview more palatable for the respondent (thereby increasing our response rates) without encouraging the landlord to alter his or her views or perceptions.

Prior to the field work, interviewers conducted practice interviews on each other. This gave them both a feel for the instrument and a sympathetic awareness for the landlord's position.

In summary, the training was designed to meet the special needs of this survey. The skilled interviewers obtained background knowledge in the operation of the Residential Tenancies Commission and the Thom Commission. They approached the survey with a carefully prepared plan to capture quality data in a cost effective manner.

4.0 CONDUCT OF THE INTERVIEWS

Interviewing began May 8th and ended on May 22nd. The first few days were primarily spent tracking down TEELA landlord telephone numbers. The addresses available in the TEELA listings were primarily residential. Telephone numbers were obtained from directory assistance. Reaching the landlords at home made the most productive interview period early evening. Interviewing began at 9:30 a.m. and lasted till 9:30 p.m.

To help compensate for the initial lack of participation, several different introductions to the survey were drafted and used in the first few days of full scale field operations. Results were monitored and the best presentation used for the remainder of the survey.

To facilitate cooperation, a cash incentive ($25 to $70) was offered to reluctant landlords. In the first few days of the survey this had little effect and at times raised the scepticism of some landlords. Different approaches were discussed by interviewers and Ekos staff. Offering to mail the instruments was considered but the time involved and the possibility of the instrument being categorized as junk mail made this option unattractive. The decision was not to offer the landlord a cash incentive at first but to offer to send the instrument immediately by courier with an addressed and prepaid return envelope. The courier delivery assured the landlord of the legitimacy of the survey; as well it impressed upon them its urgency. This approach was well received by landlords who had initially refused to participate in a telephone survey. The landlords not induced to participate by this technique were offered a cash incentive. Of the 51 courier-delivered questionnaires, 27 were completed and returned. Eleven landlords were offered cash incentives and seven landlords accepted (pretest excluded).

Interviewer debriefings were held every two days. Contact and interview results were examined and work was reviewed by the field supervisor. Any difficulties were immediately addressed. These sessions ensured high and consistent data quality.

5.0 SURVEY RESULTS

The final survey results are presented in Table 1. The table indicates the number of landlords in the sample frame, the attrition rate (due to no phone number) and the survey results by category (MMAH and TEELA).

TABLE 1

	TEELA	MMAH	TOTAL
SAMPLE FRAME	768	74	842
• Attrition (unlisted phone numbers)	394	3	397
FUNCTIONAL SAMPLE	374	71	445
SAMPLE RESULTS			
• Direct Refusals	46	6	52
• Refusal after Incentive	32	6	38
• Language Difficulty	19	1	20
• Unable to Reach	62	13	75
• Ineligible*	43	7	50
TOTAL NON RESPONSE	202	33	235
• Complete Interviews with Incentive	28	3	31
• Complete Interviews No Incentive	144	35	179
TOTAL COMPLETED	172	38	210

We achieved our overall target of 200 landlords although we got fewer MMAH landlords than expected and more TEELA landlords. The total sample was 210 landlords: 38 MMAH landlords (less than our target of 50) and 172 TEELA landlords (more than the 150 initially planned in order to compensate for the MMAH shortfall). Starting with 74 MMAH landlords, we were unable to find telephone numbers for three landlords, we had 12 refusals and one non-participant due to language difficulty and 20 landlords who were ineligible or unreachable. We started with 768 landlords from the TEELA data but this was reduced to 374 after we eliminated those with unlisted telephone numbers. We were unable to contact or had to eliminate as inelegible 105 landlords. We had 78 refusals and 19 language problems. Our overall response rate was 66 per cent of the eligible and accessible population.

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* The property had been sold, the TEELA listing was inaccurate or they had owned the property for less than one year.

The refusal rate and the use of incentives were carefully monitored. The refusal rate is calculated as the sum of all refusal categories divided by the total of the eligible respondents contacted. The refusal rate was:

$$\frac{52 + 38 + 20}{445 - 75 - 50} \times 100 = 34.4\%$$

If refusals because of a language difficulty are removed from the calculation, the rate drops to 30 per cent. This is a relatively low refusal rate for a telephone survey of a hostile client group. If incentives had not been used, the refusal rate would have been 44 per cent (if we assume those who participated with an incentive would not have participated without the incentive).

$$\frac{52 + 38 + 20 + 31}{445 - 75 - 50} \times 100 = 44.1\%$$

The difference between the refusal rates of the two landlord groups was noticeable. As expected, the MMAH rate was considerably lower at 25 per cent (one landlord in four) as compared to 36 per cent (one landlord in three) for TEELA. An interesting finding is the high number of respondents deemed as ineligible because of the sale of their property within the last 12 months. Of the 312 TEELA landlords reached, 43 (13.8 per cent) had sold their property in the last six to twelve months. Of the 58 MMAH landlords reached, seven (12.1 per cent) had sold their properties within the last seven months.

The final results by city are presented in Table 2. The estimates for the percentage distribution of the total rental apartment stock are based on the TEELA listings. Metropolitan Toronto has about 53 per cent of the total stock (buildings) but only 43 per cent of the final sample. This discrepancy can be explained by three factors. First, the Toronto area had a marginally higher refusal rate. Secondly, Toronto also had a marginally higher number of unreachable landlords. Third, and the most important, the attrition rate from the original TEELA sample frame of 768 was greatest for Toronto area landlords. This reduced the proportion of Toronto respondents within the functional sample.

TABLE 2

	Percentage Distribution of Total Stock	Results of the Survey				
		TEELA		MMAH		
		#	%	#	%	TOTAL %
Toronto	53.0	77	44.8	14	36.8	43.3
Ottawa	18.2	37	21.5	12	31.6	23.3
Hamilton	8.0	13	7.6	12	31.6	11.9
Middlesex	5.3	15	8.7	-	-	7.1
Niagara	4.4	9	5.2	-	-	4.3
Peel	3.5	5	2.9	-	-	2.4
Durham	3.3	8	4.7	-	-	3.8
Halton	2.6	5	2.9	-	-	2.4
York	1.6	3	1.7	-	-	1.4
TOTALS	99.9	172	100.0	38	100.0	99.9

As could be expected, Ottawa and Hamilton are over-represented as a result of the addition of the MMAH landlords. The remaining six municipalities as a group are slightly over-represented relative to their actual weight (21.4 per cent of the sample versus 20.7 per cent of the TEELA stock).

6.0 DATA QUALITY

Salient concerns are the generalisability of the study findings and the reliability and validity of the survey data. The issue of generalisability can be treated via an examination of sampling biases and sampling error. Reliability, or the intersubjective repeatability of the results can be assessed by comparing these survey results to those obtained in other surveys and through an examination of the variance of particular sample statistics. Validity refers to the issue of whether the questionnaire really measures what it was intended to. Validity can be examined in terms of face and construct validity.

First, we need to explore the legitimacy of treating the MMAH and TEELA samples as one. Both the TEELA and MMAH landlord samples were randomly drawn but different methods were used. The sampling frames were also defined using different criteria. The TEELA frame consisted of landlords with a building containing six to forty units. The MMAH frame was defined by the number of storeys in the building (less than five storeys) as well as the absence of mixed or non-residential land uses or recent renovations to luxury standards. MMAH landlords were also concentrated in three of the nine TEELA municipalities.

T-tests were conducted to determine if there were systematic differences between the scores of the two landlord groups on various independent, background variables of interest. No significant differences in the scores for MMAH and TEELA landlords were discovered for the number of buildings in the portfolio, typical unit rent, length of building ownership, building age or concentration of investment in rental residential real estate. TEELA landlords are more likely to have larger buildings but the T-value is only significant at the .09 level. We have, therefore, assumed that the two samples came from the same population and can be combined for the analysis.

In terms of sampling bias, we have alluded to the problem we had in finding landlord home telephone numbers. There is a possibility that systematic differences exist between the landlords in the final sample and those lost through unlisted numbers. Certain types of landlords, such as the very well to do, corporate owners which exist only for tax or legal purposes, those trying to avoid surveyors or their tenants, etc., may have a higher incidence of unlisted telephone numbers. It is possible, therefore, that certain types of landlords could be under-represented in the final sample but it is impossible, in the absence of a non-response survey, to identify which types of landlords are absent. This caveat should be kept in mind in the interpretation of survey findings. For those landlords for whom we could obtain a telephone listing, the use of courier and cash incentives helped reduce the non-response rates. These incentives were directed at encouraging the more hostile or reluctant landlords to participate and thus these measures will have helped reduce systematic biases.

The reader should also remember sampling biases introduced by the nature of the frames used, i.e., the sample population excludes rural landlords and under-represents those with newer buildings or those recently renovated to luxury standards.

Low item response rates can also be a source of error. Response rates for all questionnaire items were scrutinised. Response rates for questions directed at previous participants never dropped below 85 per cent. Response rates for non-participants were similarly high; the lowest is for the rating of the expected fairness of an RTC hearing (76 per cent). Questions directed at the total landlord population generally elicited response rates in excess of 95 per cent. The exceptions are the estimate of the percentage of total investments in rental residential real estate (82 per cent), the assessment of the frequency of the practice of avoiding rent review (62 per cent), the minimum percentage rent increase required before an RTC application would be worthwhile (68 per cent) and the questions concerning the landlord's financial position (response rates varied from 54 per cent to 76 per cent). Some of the very lowest rates probably reflect the difficulty of calculating an answer (e.g., total pre-tax net rental revenues in 1984 or this as a percentage of total 1984 income) as well as the sensitivity of the information.

The distribution of our final sample also under-represents Toronto landlords (and slightly over-represents Ottawa and Hamilton landlords). T-tests were performed to see if Toronto landlords differed systematically from those in other centres. Looking at a variety of background characteristics (portfolio size as measured by units and buildings, typical unit rents, length of ownership, age of building and concentration of investments in rental residential real estate) we found no significant differences with the exception of a barely statistically significant difference (p=.11) in the total number of units in the landlord's portfolio. Toronto landlords are more likley to own larger buildings.

Problems of generalisability are also a function of sample size. We looked at the confidence intervals for a number of sample statistics as an indicator of the general magnitude of sampling error in particular circumstances. With a 95 per cent confidence interval, the following upper and lower bounds were obtained*:

- proportion of landlords who reported applying for a hearing: 48.3% ± 6.9
- proportion of past participants who feel the Commission presided in impartial manner: 44.0% ± 10.2
- proportion of non-participants who cited the paper burden as an important reason for not applying: 62.0% ± 9.9
- proportion of all landlords who feel it likely that they will be applying for a rent review hearing in the next five years: 43.6% ± 7.1

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*Formulae used were:

$$\bar{X} \pm 2.131 \frac{S}{\sqrt{n-1}} \quad \text{or} \quad \frac{R}{n} \pm 1.96\sqrt{\frac{p(1-p)}{n}}$$

- proportion of all landlords who admit to illegal rent increases: 17.4% ± 5.2
- minimum percentage rent increase needed before application for a hearing would be considered worthwhile: 11.3 ± .8
- reported pre-tax net rental revenues in 1984: $20,150 ± $6,850

In summary, generalisability to the wider Ontario population is limited by the a priori limitations set by the available sampling frames and threatened to an unknown extent by the high incidence of unlisted telephone numbers. Confidence intervals for a variety of variables of interest are broad given that the sample size is effectively halved by the use of two separate lines of questioning for previous participants and non-participants.

In terms of data reliability it is encouraging to note that the same questions repeated on both this and the 1984 MMAH survey elicited similar response patterns, i.e., results are intersubjectively repeatable. These common questions concerned portfolio sizes, motivations and intentions, attitudes and financial characteristics.

Generally speaking, the higher the variance in the responses, the lower the reliability. Higher levels of variance (i.e., the standard deviation approached or exceeded the arithmetic mean) were noted in the responses to questions concerning the number of times the landlord had applied for rent review, the portfolio size, the property value, current mortgage debt ratio, net rental revenues in 1984 and the proportion this represented of total 1984 income.

In terms of data validity we should expect a "stakeholder" bias as landlords surveyed have strong (usually negative) feelings about rent control. For example, one should expect some exaggeration of the extent of negative financial or other impacts reported as stemming from rent control or participation in the hearing process. Thus net rental revenues may be reported as lower than they actually are, or increases in property values less than the case. These reported figures may not reflect true figures for a variety of reasons but stakeholder bias should be considered as a source of systematic bias. In terms of construct validity, we feel the findings are of generally high quality. The patterns of answers are generally internally consistent and consistent with the linkages we had hypothesised as plausible.

APPENDIX C

Description of Statistical Methodologies Employed

- Summary Indices
- Significant Pearson Correlations
- Multiple Regression Models

APPENDIX C

Summary Indices

1. Knowledge Index

The knowledge index was computed for all respondents and was calculated on the following basis.

AWARE = CONTROL + PCNTINC + TENAG + LEASE + LESS20 + INCREAS + CASH + OVERLIM + NEWBUILD + RECUNIT + ROOM + HOME + DEFICIT + MAJOR + MANAGMNT + OPERANT + PROFESS + VACANT

Where,

CONTROL	is 1 if response to question 2a) is Yes and 0 if No, don't know or blank.
PCNTINC	is 1 if response to qustion 2b) is 6% and 0 if response is anything else.
TENAG	is 1 if response to question 2c) is Yes and 0 if No or dont't know.
LEASE	is 1 if response to question 2c)ii) is Yes and 0 if No or don't know.
LESS20	is 1 if response to question 2c)iv is Yes and 0 if No or don't know.
INCREAS	is 1 if response to question 2c)v) is Yes and 0 if No or don't know.
CASH	is 1 if response to 2c)vi is Yes and 0 if No or don't know.
OVERLIM	is 0 if response to question 2c)viii) is Yes and 1 if No or don't know.
NEWBUILD	is 0 if response to question 2c)viii) is Yes and 1 if No or don't know.
RECUNIT	is 0 if response to question 2c)ix is Yes and 1 if No or don't know.
ROOM	is 1 if response to question 2c)x is Yes and 0 is No or don't know.
HOME	is 1 if response to question 2c)xi is Yes and 0 is No or don't know.
DEFICIT	is 1 if response to question 2d)i) is Yes and 0 is No or don't know.
MAJOR	is 1 if response to question 2d)ii is Yes and 0 is No or don't know.
MANAGMNT	is 1 if response to question 2d)iii) is Yes and 0 is No or don't know.
OPERAT	is 1 if response to question 2d)iv) is Yes and 0 if No or don't know.
PROFESS	is 1 if response to question 2d(v(is Yes and 0 if No or don't know.
VACANT	is 1 if response to question 2d)vi) is Yes and 0 if No or don't know.

Notes:

1. Question 2c) regarding the need to go to the RTC if the rent increase is greater than 6% and major repairs or improvements have been done to the building has been omitted from the index. This is because of ambiguity surrounding the question. In two separate conversations with different consultants at the RTC office in Ottawa we were told that landlords are not required by the legislation to get the approval of the RTC if the rent increase is greater than 6% and major improvements have been done to the buildings.
2. Prompted and unprompted responses to question 2d) have been rolled up.

RANGE OF INDEX: 0-18 where 0 is the worst possible score and 18 is the best possible score.

2. Attitudinal Indices

Two attitudinal indices were calculated. The index for participants was calculated on the following basis:

PARTATT = MORE6AGR + HOWCOMMO + GOVFAIR + COMMFAIR + HEARDIFF
COMMHELP + INTIMPCT + OVERSAT

* MORE6AGR scale is reversed i.e., 1=7, 2=6, 3=, 4=4, 5=3. 6=2. 7=1

RANGE OF INDEX: 1 - 56, where 1 is a perfectly positive attitude and 63 is perfectly negative

The attitudinal index for non-participants was calculated as follows:

NONATT = MORE6AGR + HOWCOMMO + GOVFAIR + INTIMPC2 + COMFAIR2
+ PROCINT + CSTTOOHI + PAPERWK

RANGE OF INDEX: 1 - 56, where 1 is a positive attitude and 63 is negative.

NOTES: 1. The scale for variables: * MORE6AGR, PROCINT, CSTTOOHI and PAPERWK were reversed so that 1=7, 2=6, 3=5, 4=4, 5=3, 6=2, and 7=1.

Significant Pearson Correlations

Significant Pearson Correlations for Knowledge Index*

GOVFAIR 0.1376 (209) p=0.024	PURLOSS 0.1590 (91) p=0.066	OPCOSTS -0.2706 (97) p=0.004	COMMFAIR 0.1850 (91) p=0.040	HEARDIFF 0.2172 (88) p=0.021
TNTIMPCT 0.2177 (94) p=0.018	OVERSAT 0.1559 (94) p=0.067	UNDEREST -0.1734 (90) p=0.051	PROCINT -0.1804 (91) p=0.044	PAPERWK -0.1791 (94) p=0.042
CSTTOOHI -0.1617 (87) p=0.067	RECSADEQ -0.2062 (93) p=0.024	RNTREV5B -0.2178 (98) p=0.016	HIGHINC -0.1165 (200) p=0.050	INCEQTY -0.1393 (193) p=0.027
REDCOSTS -0.2400 (197) p=0.000	TURNOVER -0.1190 (199) p=0.047	DELREPS -0.1426 (209) p=0.020	NOBLDGS 0.2009 (194) p=0.002	NOUNITS 0.1594 (193) p=0.013
PRCTINV 0.1226 (173) p=0.054	MORE6AGR 0.1657 (194) p=0.010	PURCHCST 0.1497 (156) p=0.030 (past only applicants)	MORTNOW 0.1888 (143) p=0.012	PCNTNET -0.1721 (114) p=0.034
TOTUNIT 0.1271 (210) p=0.033				

* The signs indicate the direction of the relationships and are taken directly from output listings. Please refer to the pertinent questions to interpret the relationships, as the scales on the questionnaire are frequently reversed to prevent respondent 'yea-saying'.

Significant Pearson Correlations for RNTREV5
(Participant Assessments of Likelihood of Reparticipation within the Next Five Years)

where RNIREV5 1 = Extremely Likely and 7 = Extremely Unlikely

COMMHELP	COMMFAIR	HEARDIFF	MORE6AGR
r=.2254	r=.1767	r=.2037	r=-.2011
(87)	(88)	(85)	(89)
p=.018	p=.050	p=.031	p=.029

Significant Pearson Correlations for RNIREV5B
(Non-Participant Assessments of Likelihood of Participation within the Next Five Years)

where RNIREV5B 1 = Extremely Likely and 7 = Extremely Unlikely

COVFAIR	UNDEREST	TNTSOBJE	LESSMAX
r=-.2321	r=.1576	r=.2337	r=.2704
(97)	(83)	(87)	(80)
p=.011	p=.077	p=.015	p=.008

MORE6AGR	DELREPS
r=-.1650	r=.2800
(90)	(98)
p=.060	p=.003

Significant Pearson Correlations for OVERSAT
(Overall Satisfaction with Last Rent Review Experience)

where OVERSAT 1 = Extremely Satisfied and 7 = Extremely Dissatisfied

TNTIMPCT	COMMHELP	COMMFAIR	HEARDIFF
r=.4464	r=.6407	r=.6856	r=.5101
(92)	(89)	(88)	(86)
p .001	p .001	p .001	p .001

COVFAIR	MORE6AGR	FINLEV
r=.4601	r=-.2317	r=-.3108
(94)	(89)	(82)
p .001	p=.014	p=.002

Multiple Regression Analysis

One of the major problems which can hinder a successful regression analysis is that of multicollinearity. This occurs when the independent variables are highly correlated with each other, and in the extreme case of perfect correlation, it is not possible to determine the regression coefficient by least squares estimates since we cannot invert the correlation matrix. Even in the case of moderate multicollinearity (i.e., .6 to .8) standard errors of estimates will become artificially inflated and tolerance levels will be unacceptably low. As a rough rule, it is often assumed that when any two independent variables have a correlation greater than .5, it is unacceptable to use both in the same regression equation. A more stringent guideline is to not allow the inter-item correlation between any two predictors to exceed the multiple R of the model. Prior to presentation of the results of the multiple regression analyses conducted here, we present the zero-order correlation matrix for the predictor variables as an empirical test for collinearity. As we shall see, this problem is not a serious concern in interpreting these models. We also present the zero-order correlation between the predictor and response variables as background data for the reader.

Multiple Regression Models

Regression 1A: Predicting Knowledge of Rent Review (All landlords)

Z AWARE = - .19 REDCOSTS + .21 NOBLDGS - .19 UNITREV
- .17 REVIEW + .13 MORTNOW + .08 ATTITUDE

Where:

AWARE = summary index of landlord knowledge of rent review

REDCOST = reduction of rising operating costs as a factor underlying management of the building

NOBLDGS = number of rental residential buildings the landlord owns, excluding subject building

UNITREV = net rental revenue per unit from subject building

REVIEW = likelihood of previous participants re-applying to rent review, and of non-participants participating for the first time within the next 5 years

MORTNOW = percentage of current market value that is mortgage debt

ATTITUDE = summary index of attitudes towards rent review (higher scores indicate more negative attitudes)

CORRELATION MATRIX

	AWARE	REDCOSTS	MORTNOW	NOBLDGS	UNITREV	ATTITUDE	REVIEW
AWARE							
REDCOSTS	-.240						
MORTNOW	.189	-.059					
NOBLDGS	.201	-.010	-.158				
UNITREV	-.181	.054	-.245	.150			
ATTITUDE	.147	-.177	.202	.137	.012		
REVIEW	-.193	.030	-.116	-.084	.010	.086	

SUMMARY STATISTICS—

	Mean	Standard Error	F
Overall	11.162	3.628	4.086

	Standard Error B	F
REDCOSTS	.20627	4.128
NOBLDGS	.04589	5.081
UNITREV	.00018	4.224
REVIEW	.14444	3.323
MORTNOW	.01261	1.816
ATTITUDE	.04671	0.613

DEPENDENT VARIABLE: AWARE

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
REDCOST	.240	.058	.058	-.419	-.188
NOBLDGS	.311	.097	.039	.103	.210
UNITREV	.376	.141	.044	-.371E-03	-.193
REVIEW	.416	.173	.032	-.263	-.168
MORTNOW	.440	.194	.021	.017	.132
ATTITUDE	.446	.198	.005	.037	.075

Regression 1B: Predicting Knowledge of Rent Review (Non-Participants)

Z AWARE = − .27 NOBLDGS − .19 HIGHINC + .24 MORE6AGR − .20 DELREPS

Where:

NOBLDGS = number of other rental residential buildings owned by landlord

HIGHINC = importance of obtaining high annual income to current management style

MORE6AGR = agreement or disagreement with practice of circumventing rent review

DELREPS = extent to which landlord is delaying repairs or reducing repair quality

CORRELATION MATRIX

	AWARE	NOBLDGS	HIGHINC	MORE6AGR	DELREPS
AWARE					
NOBLDGS	.340				
HIGHINC	-.312	-.116			
MORE6AGR	.216	.069	.054		
DELREPS	-.279	-.146	.238	.079	

Regression 2A: Predicting Participant Attitudes to Rent Review

Z PARTATT = .30 MORTNOW - .41 PCNTAPPR + .32 UNITRENT + .24 RNTREV5 + .21 NOBLDGS

Where:

PARTATT = summary index of participant attitudes towards rent review

MORTNOW = percentage of current market value that is mortgage debt

PCNTAPPR = percentage rent increase approved at last RTC hearing

UNITRENT = typical rent in sample property

RNTREV5 = likelihood of reparticipation in rent review within the next five years

NOBLDGS = number of rental residential buildings in the landlord's portfolio

CORRELATION MATRIX

	PARTATT	PCNTAPPR	UNITRENT	MORTNOW	NOBLDGS	RNTREV5
PARTATT						
PCNTAPPR	-.317					
UNITRENT	.275	.354				
MORTNOW	.329	-.080	.240			
NOBLDGS	.163	-.038	-.003	-.158		
RNTREV5	.201	.038	.108	-.206	-.002	

SUMMARY STATISTICS –

	Mean	Standard Error	F
Overall	10.577	3.006	3.643

	Standard Error B	F
NOBLDGS	.14089	3.684
HIGHINC	.24124	3.043
MORE6AGR	.19685	2.704
DELREPS	.21471	1.960

DEPENDENT VARIABLE: AWARE

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
NOBLDGS	.340	.116	.116	.269	.266
HIGHINC	.437	.191	.076	-.318	-.186
MORE6AGR	.485	.235	.044	.343	.240
DELREPS	.522	.272	.037	-.296	-.196

SUMMARY STATISTICS –

	Mean	Standard Error	F
Overall	36.938	6.761	7.484

	Standard Error B	F
MORTNOW	.03145	7.097
PCNTAPPR	.13407	12.855
UNITRENT	.01202	7.340
RNTREV5	.36441	5.143
NOBLDGS	.11089	4.120

DEPENDENT VARIABLE: PARTATT

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
MORTNOW	.329	.108	.108	.084	.304
PCNTAPPR	.439	.193	.085	-.470	-.398
UNITRENT	.556	.309	.116	.029	.332
RNTREV5	.600	.360	.051	.771	.229
NOBLDGS	.636	.405	.045	.226	.215

Regression 2B: Predicting Non-Participant Attitudes Towards Rent Review

Z NONATT = .29 MINPRCNT - .26 DELTMORT + .20 UNITRENT
-.21 REDCOSTS - .21 TOTUNIT + .16 RECSADEQ
+.14 AWARE

Where:

NONATT	=	summary index of non-participant attitudes towards rent review.
MINPRCNT	=	minimum percentage rent increase necessary before the landlord would feel a hearing would be worthwhile.
DELTMORT	=	current mortage debt ratio minus initial debt ratio
UNITRENT	=	typical rent in the sample property
REDCOSTS	=	importance accorded by landlord to containing or reducing rising operating costs
TOTUNIT	=	total number of units in sample property
RECSADEQ	=	landlord's assessment of the relative adequacy of his or her financial records for review purposes
AWARE	=	summary index of level of knowledge of rent review

CORRELATION MATRIX

	NONATT	DELTMORT	MINPRCNT	RECSADEQ	REDCOSTS	TOTUNIT	UNITRENT	AWARE
NONATT								
DELTMORT	-.251							
MINPRCNT	.256	.050						
RECSADEQ	.186	-.224	.014					
REDCOSTS	-.196	.042	.042	.162				
TOTUNIT	-.226	-.009	-.062	-.156	-.123			
UNITRENT	.141	.120	-.157	-.051	-.027	-.107		
AWARE	.108	.074	.009	-.206	-.240	.127	-.006	

SUMMARY STATISTICS

	Mean	Standard Error	F
Overall	42.019	7.177	3.184

	Standard Error B	F
MINPRCNT	.22712	6.114
DELTMORT	.03216	4.486
UNITRENT	.00986	2.765
REDCOSTS	.55484	3.033
TOTUNIT	.11429	2.963
RECSADEQ	.66337	1.770
AWARE	.24960	1.228

DEPENDENT VARIABLE: NONATT

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
MINPRCNT	.256	.065	.065	.562	.292
DELTMORT	.368	.135	.070	-.068	-.256
UNITRENT	.428	.183	.048	.016	.199
REDCOSTS	.469	.220	.036	-.966	-.211
TOTUNIT	.515	.265	.045	-.197	-.206
RECSADEQ	.532	.283	.019	.883	.165
AWARE	.548	.300	.017	.277	.135

Regression 2C: Predicting Attitudes Towards Rent Review

Z ATTITUDE = .51 RENTAMNT + .38 SELLNOW + .35 TOTINDEX

Where:

RENTAMNT = monthly rent as reported by the tenant

SELLNOW = landlord rating of whether he or she would make (1 to 3) or lose money (5 to 7) or breakeven (4) if the property were to be sold today

TOTINDEX = expert derived composite physical condition index for the sample property (high scores indicate worse condition)

CORRELATION MATRIX

	ATTITUDE	TOTINDEX	RENTAMNT	SELLNOW
ATTITUDE				
TOTINDEX	.248			
RENTAMNT	.403	-.177		
SELLNOW	.308	-.021	-.127	

SUMMARY STATISTICS--

	Mean	Standard Error	F
Overall	40.930	6.640	14.535

	Standard Error B	F
RENTAMNT	.011	26.601
SELLNOW	.421	15.125
TOTINDEX	.055	12.343

DEPENDENT VARIABLE: ATTITUDE

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
RENTAMNT	.403	.162	.162	.564E-01	.512
SELLNOW	.542	.293	.131	1.636	.380
TOTINDEX	.640	.410	.116	.193	.346

Regression 3A: Predicting the Likelihood of Reparticipation

Z RNTREV5 = -.23 PRCTINV + .21 COMMHELP - .26 MORTNOW
-.16 DELREPS - .14 MORE6AGR + .10 UNITRENT

Where:

RNTREV5 = the likelihood of the participating landlord (re) applying for rent review in the next five years

PRCTINV = percentage of landlord's total investments which are in rental residential real estate

COMMHELP = rating of how helpful Commission people were at last hearing

MORTNOW = mortgage debt as a percentage of current market value

DELREPS = extent to which landlord is delaying repairs or reducing quality of repairs

MORE6AGR = extent to which landlord condones circumvention by other landlords

UNITRENT = typical rent in sample property

CORRELATION MATRIX

	RNTREV5	DELREPS	PRCTINV	MORTNOW	MORE6AGR	UNITRENT	COMMHELP
RNTREV5							
DELREPS	-.141						
PRCTINV	-.258	-.054					
MORTNOW	-.206	-.088	.122				
MORE6AGR	-.201	.093	.103	-.103			
UNITRENT	.108	-.008	.034	.240	-.124		
COMMHELP	.225	-.016	.034	.133	-.169	.270	

SUMMARY STATISTICS

	Mean	Standard Error	F
Overall	3.532	2.301	2.822

	Standard Error B	F
PRCTINV	.00996	3.934
COMMHELP	.16396	3.141
MORTNOW	.00980	4.654
DELREPS	.12610	1.882
MORE6AGR	.11857	1.403
UNITRENT	.00312	.690

DEPENDENT VARIABLE: RNTREV5

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
PRCTINV	.258	.067	.067	-.020	-.231
COMMHELP	.349	.122	.055	.291	.214
MORTNOW	.406	.165	.043	-.021	-.259
DELREPS	.440	.193	.029	-.173	-.159
MORE6AGR	.462	.214	.020	-.140	-.140
UNITRENT	.472	.223	.009	.003	.102

Regression 3B: Predicting the Likelihood of Initial Participation.

Z RNTREV5B = +.32 DELREPS + .34 LESSMAX - .22 MORE6AGR -.17 AWARE

Where:

RNTREV5B = the likelihood of the non-participating landlord applying for rent review in the next five years

DELREPS = the extent to which the landlord is delaying repairs or reducing quality of repairs

LESSMAX = importance accorded to costs not having risen by more than six per cent as a reason for not participating in the past

MORE6AGR = extent to which the landlord condones circumvention by other landlords

AWARE = summary index of landlord knowledge of rent review

CORRELATION MATRIX

	RNTREV5B	DELREPS	AWARE	LESSMAX	MORE6AGR
RNTREV5B					
DELREPS	.280				
AWARE	-.218	-.143			
LESSMAX	.270	-.108	.042		
MORE6AGR	-.165	.093	.166	.097	

SUMMARY STATISTICS

	Mean	Standard Error	F
Overall	4.694	2.174	4.658

	Standard Error B	F
DELREPS	.11501	8.700
LESSMAX	.11553	9.662
MORE6AGR	.10628	3.805
AWARE	.06722	2.339

DEPENDENT VARIABLE: RNTREV5B

Independent Variables	Multiple R	R^2	R^2 Change	B	Beta
DELREPS	.280	.078	.078	.339	.318
LESSMAX	.412	.170	.092	.359	.331
MORE6AGR	.470	.221	.051	-.207	-.212
AWARE	.493	.243	.022	-.103	-.166

Research Studies

The following is a list of papers commissioned by the Inquiry.

No.

1 Slack, Enid and Sherry Glied. Rent Registry Alternatives.

2 Reid, Frank. Collective Bargaining for Tenants.

3 Jaffary, Karl D. Problems in the Regulation of Rents for Roomers and Boarders.

4 MacDonald, Daniel V. Constitutional Reference Re: The Residential Tenancies Act.

5 Fallis, George. Possible Rationales for Rent Regulation.

6 Hulchanski, J. David. Market Imperfections and the Role of Rent Regulations in the Pesidential Rental Market.

7 Sharp, Campbell, Pannell Kerr Forster Campbell Sharp. Survey of Financial Performance of Landlords.

8 Marks, Denton. Housing Affordability and Rent Regulation.

9 Steele, Marion and John Miron. Rent Regulation, Housing Affordability Problems, and Market Imperfections.

10 Clayton Research Associates Limited. Rent Regulation and Rental Market Problems.

11 Makuch, Stanley M. and Arnold Weinrib. Security of Tenure.

12 Hartle, D.G. The Political Economy of Residential Rent Control in Ontario.

13 Slack, Enid and David P. Amborski. The Distributive Impact of Rent Regulation.

14 Knetsch, Jack L., Daniel Kahneman and Patricia McNeill. Residential Tenancies: Losses, Fairness and Regulations.

15 Stanbury, W.T. Normative Bases of Rent Regulation.

16 Stanbury, W.T. Normative Bases of Government Action.

17 Stanbury, W.T. and P. Thain. The Origins of Rent Regulation in Ontario.

18 Stanbury, W.T. and I.B. Vertinsky. Rent Regulation: Design Characteristics and Effects.

19 Chant, John. Overview of Alternative Rental Housing Policies.

20 Foot, David K. Housing Demands: A Demographic Perspective.

21 Quirin, G. David. Regulatory Systems and their Applicability to Rent Controls.

22 Mascall, M. and Associates. Report of the Ontario Rental Housing Market.

23 Environics Research Group Limited. Financing Residential Rental Accommodation: A Survey.

24 Ekos Research Associates Inc. A Study of Landlords and Rent Regulation.

25 des Rosiers, Francois. A Rent Control System in Quebec.

26 Slack, Enid. The Costs of Rent Review in Ontario.

27 Muller, Andrew. Workable Rent Regulation: A Synthesis.

The following is a list of papers prepared by the research staff of the Inquiry.

28 Adams, Eric B., Pearl Ing and John Pringle. A Review of the Literature Relevant to Rent Regulation.

29 Adams, Eric B., Pearl Ing, Janet Ortved and Mary Jane Park. Government Intervention in Housing Markets: An Overview.

30 Pringle, John. Ontario's Residential Tenancies: A Statistical Profile.